British Columbia Securities Commission

annual
report 2002 | 03

fixing problems | focusing on principles

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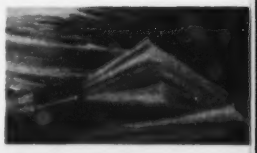
fixing problems

focusing on principles

High profile failures in corporate governance and disclosure have come to characterize the international market boom of the late 1990s and its aftermath. Securities market participants and the general public are challenging securities regulators to find the causes. In our view, these events reinforce the need for us to continue work on a new approach to securities regulation. We need to develop solutions to prevent these problems from recurring.



Over the past year, we devoted the energies and skills of our team to fixing the most important problems that threaten investors and market integrity. This report describes the problems we identified in our plan for 2002-03, the solutions we developed to address them and what we actually did.

As a major part of our problem-solving efforts during the year, we continued to develop and refine proposed new securities legislation we will deliver to the BC government in December 2003. Our approach responds to the pressing need for a modernized and more flexible regulatory system that will do a better job of fostering integrity and confidence in the capital markets. It puts the basic principles of appropriate market conduct front and center for market participants to follow, eliminates unnecessary red tape that hampers business, stresses understanding and education, and increases our ability to protect investors by deterring and removing from the market those who mislead them.

By fixing what we believe to be the biggest problems affecting the markets, in large part by focusing on principles of fair market conduct, we are working to achieve a regulatory environment in which businesses can thrive and investors' funds are safe.

This has been our emphasis in fiscal 2002-03.

overview

The British Columbia Securities Commission (BCSC) is the independent provincial government agency responsible for regulating trading in securities in BC, and the third largest of Canada's provincial securities regulators. We are accountable to the provincial legislature and the public through the Minister of Competition, Science and Enterprise, to whom we submit our annual reports and audited financial statements. We also submit a three-year Service Plan to the provincial Treasury Board as required under the *Securities Act*, our enabling legislation, and under the *Budget Transparency and Accountability Act*. This plan, which is renewed annually, contains our strategic objectives and action plans for achieving them. Our annual report describes the progress we are making in comparison with our plan.

VISION: what we are striving to achieve

Our vision is to make British Columbia, by 2005, the best place in North America to invest and raise capital, and to achieve this by being leaders in the field of securities regulation.

MISSION: our purpose and role

Our mission is to protect and promote the public interest by:

1. ensuring the securities market is fair and warrants public confidence
2. fostering a dynamic and competitive securities industry that provides investment opportunities and access to capital

To fulfill both parts of our mission, we must strike a balance between protecting investors from fraudulent, improper and unfair practices, and allowing market participants to pursue their economic interests without an excessive burden of regulation.

HOW WE REGULATE

We regulate the markets by:

- educating industry and investors
- establishing qualifications and standards of conduct for those registered to advise investors and trade on their behalf
- mandating information publicly traded companies must disclose to ensure investors have access to the facts they need to make informed investment decisions
- setting rules of fair play for trading securities
- policing the markets for misconduct
- deterring and removing from the market those who do not comply or who cheat investors

BCSC statistics at a glance >

	2003	2002
Registrants	23,569	21,457
Active Reporting Issuers[1]	6,231	6,202
Exemption Applications	902	941
Mutual Fund Prospectus Filings	2,514	2,475
Prospectus Filings (Non-Mutual Fund)	441	514
Initial Public Offerings Receipted[2]	134	118
Cease Trading Orders (Reporting Issuers)	352	351
Continuous Disclosure Reviews	201	148
Annual Information Forms Filed[3]	535	539
Material Change Reports	9,025	8,155
Insider Reports Filed	61,862	59,407

[1] *At March 31, 2003.*
[2] *These figures include Capital Pool IPOs: 6 in 2003; 15 in 2002.*
[3] *Statistics are for AIFs filed under the short form prospectus distribution system.*

STAKEHOLDERS: **who we serve**

Our stakeholders include:

investors, both retail and institutional, who want to invest in fair and efficient capital markets

issuers, who rely on the capital markets to fund growth and diversification

the securities industry, which serves both users and suppliers of capital, including self-regulatory bodies, and firms registered to trade in securities in BC and their authorized representatives

the legislature and provincial government, to whom we are accountable for conducting our affairs and administering the *Securities Act*

the public, who rely on the BCSC to ensure capital markets contribute to the economic well-being of British Columbia

STAFF AND FUNDING

The BCSC has a staff of 206 full-time employees and an annual budget of $28.5 million (fiscal 2002-03). We are not funded by taxpayers, but entirely by fees collected under the *Securities Act* from market participants.

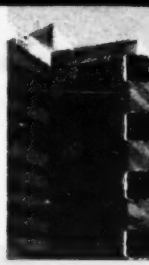
HOW WE WORK WITH OTHER CANADIAN REGULATORS

There are two main ways we team with the other securities regulators in Canada. **First,** we are part of the Canadian Securities Administrators (CSA), a forum for the securities regulators of Canada's provinces and territories to coordinate and harmonize regulation of the Canadian capital markets. This ongoing collaboration has also been responsible for major national initiatives designed to assist industry and investors, including the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD), and the System for Electronic Disclosure by Insiders (SEDI).

Second, together with the other Canadian securities regulators, we supervise the operations of national markets and self-regulatory organizations (SROs) that have authority to adopt and enforce rules that protect the fairness and integrity of the market. The regulatory decisions of these bodies can be appealed to the BCSC and ultimately to the BC Court of Appeal.

The four SROs we rely on and oversee are:

- TSX Venture Exchange (TSX-V)
- The Investment Dealers Association of Canada (IDA)
- The Mutual Fund Dealers Association of Canada (MFDA)
- Market Regulation Services Inc. (RS)



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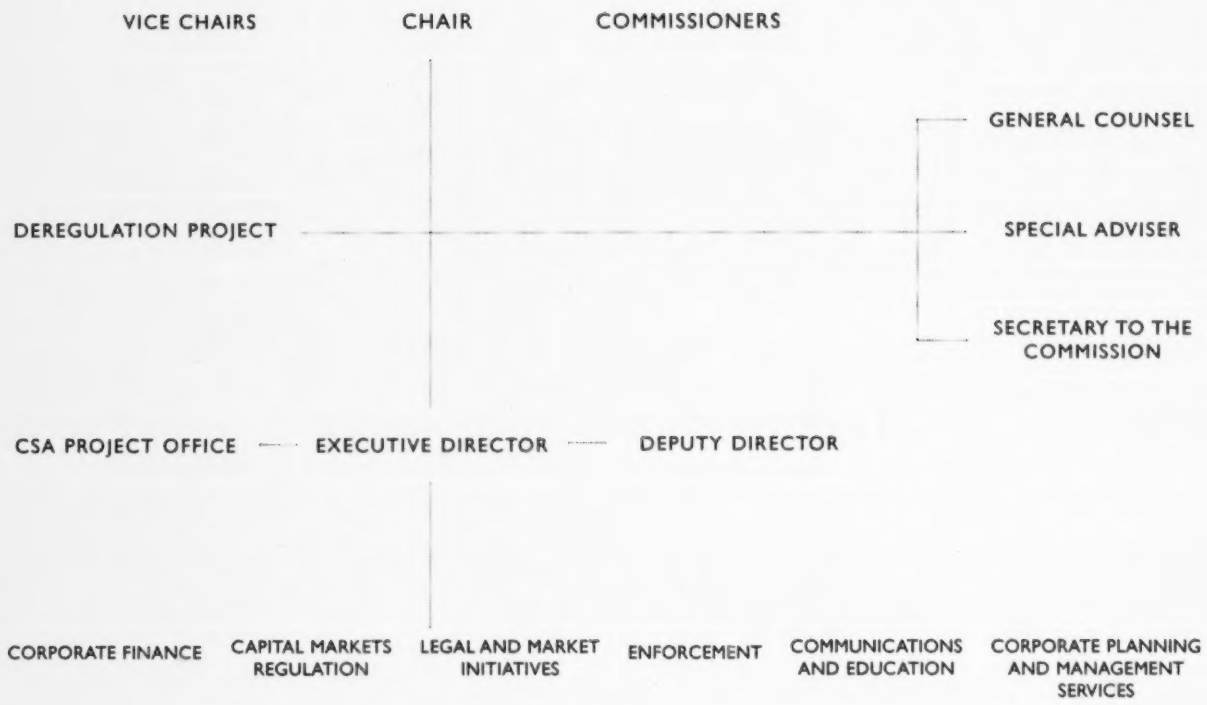
Organization Chart



commissioners

The commissioners are appointed by the provincial government and are responsible for administering the Securities Act. *They are chosen for their skills and experience in business, law, capital markets and regulation. The BCSC currently has 10 commissioners.*

Commissioners have three basic functions:

1. serve as the BCSC's board of directors and oversee its management
2. establish rules and policies to regulate securities market participants
3. conduct hearings and make decisions under the *Securities Act*

During the year, the commissioners rendered a total of 29 decisions, compared to 24 in the previous year. These decisions related to:

- 10 enforcement cases
- 3 reviews of TSX decisions
- 1 review of Executive Director decisions
- 6 applications to vary previous orders
- 7 requests for disclosure of documents, standing at a hearing or stays of decisions
- 2 take-over bid decisions

commissioners

DOUG HYNDMAN
CHAIR

- Appointed 1987
- Assistant Deputy Minister, Treasury Board, BC Finance Ministry, 1984-1987
- Economist, BC Finance Ministry, 1975-1984
- MBA, University of Western Ontario, 1975
- B.A. (Economics), University of BC, 1972

BRENT AITKEN
VICE CHAIR

- Appointed 1995
- Member, BCSC Human Resources Committee
- Director, Nav Canada, 1995-1999
- Senior Vice President, Canadian Airlines International Ltd., Calgary, 1987-1992
- Corporate and securities lawyer, Bennett Jones, Calgary, 1979-1987
- Seconded Counsel, Alberta Securities Commission, 1980-1981
- Sessional instructor, securities regulation and corporate finance, University of Alberta and Calgary law schools, 1981-1984
- LL.B., University of Alberta, 1978

JOYCE MAYKUT, QC
VICE CHAIR

- Appointed 1990
- Solicitor, 1981-1986, and Senior Solicitor, 1986-1990, Vancouver Legal Services Branch, Ministry of the Attorney General
- Criminal Practice, Sole Practitioner, Vancouver, 1977-1981
- Prosecutor, Federal Department of Justice, 1974-1976
- LL.B., University of Alberta, 1974

ADRIENNE SALVAIL-LOPEZ
VICE CHAIR

- Appointed 1992
- Member, BCSC Audit Committee
- Director, BCSC Policy and Legislation Division, 1987-1992
- Senior Policy Adviser, BC Finance Ministry, 1982-1987
- Called to the BC bar, 1982
- LL.B., University of British Columbia, 1981
- B.A. (Economics and Commerce), Simon Fraser University, 1978

NEIL ALEXANDER
COMMISSIONER

- Appointed March 2002
- Member, BCSC Audit Committee
- Bank of America 1980-2001, marketing, credit administration and project finance
- Queen's University, MBA, 1978
- University of Victoria, B.A. (History), 1973

JOAN BROCKMAN
COMMISSIONER

- Appointed 1998
- Member, BCSC Audit Committee
- Professor, School of Criminology, Simon Fraser University
- Called to the BC bar 1983 and the Alberta bar 1981
- LL.M., University of British Columbia, 1982
- LL.B., University of Calgary, 1980
- M.A. (Sociology), University of Alberta, 1976
- B.A. (Sociology), University of Saskatchewan, 1973

MARC FOREMAN
COMMISSIONER

- Appointed March 2002
- Member, BCSC Human Resources Committee
- Former Vice-President, Vancouver and Canadian Venture Exchanges, 1986-2001
- Vice President, Trans Canada Options, 1986-2001
- Director, International Options Clearing Corporation, 1986-2001
- General Manager, Service Corporation, 1976-1981

JOHN GRAF
COMMISSIONER

- Appointed 1998
- Chair, BCSC Audit Committee
- Various positions with Norske Skog Canada Limited (formerly Fletcher Challenge Canada Ltd.) from 1973 to 1997, retired in 1997 as Vice-President, Secretary and Treasurer
- Taxation Specialist, Arthur Andersen & Co., 1968-1973
- Chartered Accountant, 1968
- B.Comm., University of British Columbia, 1966

BOB MILBOURNE
COMMISSIONER

- Appointed March 2002
- Chair, BCSC Human Resources Committee
- Registered Professional Engineer, Ontario and British Columbia
- Commissioner, Ontario Human Rights Commission, 1991-1996
- Various positions, President and Chief Operating Officer, Stelco Inc., 1963-1996
- Banff School of Advanced Management, 1977
- B.A.Sc. University of British Columbia, 1963

ROY WARES
COMMISSIONER

- Appointed 1998
- Member, BCSC Human Resources Committee
- Registered Professional Geologist, Newfoundland
- Registered Professional Engineer, BC
- M.Sc. (Regional Resources Planning), University of Aberdeen, 1979
- M.Sc. (Geology), Queen's University, 1971
- B.Sc. (Hons) Geology, University of Aberdeen, 1964

message from the chair

Douglas M. Hyndman

How we regulate Canada's securities markets has become a subject of lively public debate in the past year.

Everyone participating wants the same things. We want a system of regulation and enforcement that effectively deters securities market fraud and misrepresentation. We want better governance of public companies that reflects the interests of investors. We want better disclosure of the real information investors need to make decisions and hold companies accountable. We want securities dealers and advisers to treat their clients fairly and to give them impartial investment advice, untainted by self-interest. And we want dynamic and competitive markets that provide capital for growing businesses and opportunities for Canadians to invest their savings.

ALTHOUGH WE AGREE ON THE THINGS WE WANT, WE HAVE WIDE RANGE OF VIEWS ON HOW TO GET THEM. Many market participants and observers say the answer is for Canada to have a national securities commission. Others fear the effects of centralized regulation, or think that it is unachievable; they focus on making provincial regulation more efficient through uniform legislation or some type of "passport" system. In either case, many think we should streamline and simplify a system that has too many rules that are too complex and burdensome. Some others think we need to adopt even more detailed and intrusive rules to protect against market misconduct and force market participants to do the right things for investors.

WE SEEM TO HAVE A NATIONAL CONSENSUS ON THE NEED TO IMPROVE OUR REGULATION OF SECURITIES MARKETS but we are far from reaching consensus on how to do it. Governments have embarked on two major processes to seek answers to the question of how to move forward. The federal Wise Persons' Committee and the provincial ministers' consultations on an Interprovincial Securities Framework are seeking the views of market participants as they develop recommendations and a plan, respectively, for improving regulation. The Canadian Securities Administrators are also working on a reform initiative — the Uniform Securities Legislation Project — in an effort to eliminate most of the differences among the regulatory requirements of various jurisdictions.

Ultimately, governments will make decisions about how to reform regulation — whether by forming a single commission, adopting a passport system, or adopting uniform legislation. Our Commission will do the best job we can of protecting investors and market integrity in British Columbia and to contribute to the national debate our ideas for making Canadian regulation work better. In both of these efforts, we are focused on practical, effective solutions that can realistically make a difference.

As we detail later in this report, we have been pursuing our strategic plan by developing solutions to the challenges facing our securities markets. Our approach to regulation is focused on identifying the threats to investors and to the integrity and efficiency of the markets and crafting regulatory responses using the full range of tools we have at our disposal — rule and policy making, enforcement, compliance reviews, review of applications, communication of market and regulatory information, and education of investors and industry.

Too often in the past, we and other regulators have assumed that the best response to every new problem was a new rule. That approach

created a thick and complex rulebook that imposes heavy compliance costs without, in many cases, providing an improvement in investor protection. Indeed, our complex rules sometimes undermine the goals of investor protection. Mandatory detailed disclosure sometimes buries in countless pages of trivia the information that really matters to investors. Excessively detailed rules can obscure the basic principles and encourage a loophole mentality, where people follow the letter but not the spirit of the rules.

For several years now, Canadian governments and regulators in all fields have recognized the economic costs of excessive regulation and many have major initiatives in place to reduce this burden. We, too, have been attacking the problem of excessive volume and complexity in our rules. After the positive results of our initial streamlining effort in 2000-01, we launched a full scale project in the fall of 2001 with a two-year mandate to develop a streamlined and simplified set of legislation and rules that we can recommend to government.

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WE ARE NOW SEEKING COMMENTS ON THE DRAFT LEGISLATION AND RULES, CALLED THE BC MODEL, WHICH WE PUBLISHED ON APRIL 15, 2003.

We built the BC Model by reviewing every single regulatory requirement we impose on market participants. We found we could eliminate many requirements whose time had passed. We kept some requirements basically unchanged, simplifying them and putting them in plain language where possible, and re-crafted others to better achieve their purposes. Where necessary, we also added new requirements.

The result is a draft securities act and rules, together with guides for issuers and registrants, that puts the basic principles of securities regulation front and center and gives regulators better tools to make our markets work fairly and efficiently. The BC Model focuses on the key elements of securities regulation — mandatory disclosure of material information by issuers and rigorous rules of competency and conduct for registrants — in a form that is updated to meet the needs of markets in the 21st century.

As we continue our consultations and refine our proposals in the coming months, we will be working with other regulators, governments and market participants on the mechanisms needed for our new legislation to work as seamlessly as possible within the Canadian regulatory system. We are confident that the Canadian tradition of regulatory innovation and testing in one jurisdiction, often as a prelude to broader adoption of new ideas and approaches, will serve us well as we move toward implementation. After all, the BC Model is a powerful tool that will help us achieve the kind of investor protection that we all want to see.

AS WE LOOK BACK ON A YEAR OF SOLID PROGRESS AND ACHIEVEMENT, I want to recognize the outstanding efforts of the Commission's dedicated and hard-working staff. We are truly fortunate to have such a talented group of individuals who are dedicated to serving the needs of BC's

investors and businesses. They are working in a very challenging environment, with the rapid changes and turbulence in the markets and the need to keep pace with the evolution of our regulatory approach and culture.

No other field of interprovincial cooperation can boast the development of sophisticated systems and processes that we have.

I would also like to thank my fellow commissioners, whose contribution to our achievements cannot be overstated. Their willingness and ability to provide fresh perspectives and criticisms, and their commitment to making fair, well-considered decisions, are essential to keeping the BCSC a relevant and effective organization.

Finally, I would like to recognize my colleagues in the Canadian Securities Administrators, which is a unique organization that accomplishes more than it gets credit for. Market participants, the media, and we, ourselves, often play up the shortcomings of our system of regulatory cooperation. Our differences of opinion on important issues are prominently displayed for all to see. Beneath the surface, however, we cooperate very effectively and we achieve a great deal.

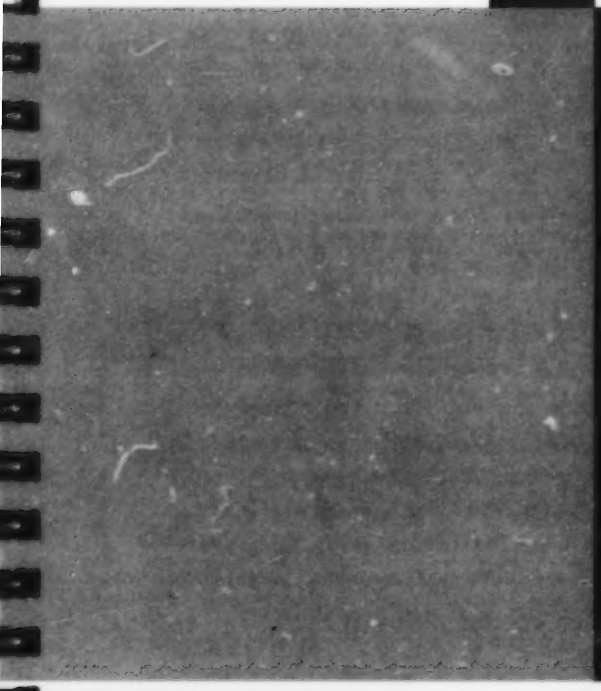
No other field of interprovincial cooperation can boast the development of sophisticated systems and processes that we have: from our body of uniform national instruments and policies; to our mutual reliance systems that provide, for many purposes, one-stop shopping for regulatory approvals; to our three national electronic filing systems; to our day-to-day cooperation on administering and enforcing legislation governing a fast-moving, borderless market. It is a measure of the strength of the CSA that we can hold strong and differing views yet work together to carry out our mandates to protect investors and market integrity in every province and territory.

IF THE CSA DID NOT EXIST, WE WOULD HAVE TO INVENT IT.

The year ahead promises many challenges for our Commission and the CSA. We have to continue doing our job of administering and enforcing the legislation in a market characterized by continuing volatility and investor uncertainty. At the same time, we will likely see proposals for major reforms emerging from the current review processes and we will be called upon to comment and respond. And our Commission will complete development of our draft legislation, make a recommendation to our government, and move forward on implementing the new model.

Amid this turbulence, our Commission and staff will concentrate on doing the best job we can of protecting investors and market integrity and developing innovative and effective tools to meet the needs of a rapidly changing market.

Douglas M. Hyndman
Chair and Chief Executive Officer



our performance for the year

executive director's commentary

Steve Wilson

Overall, in fiscal 2002-03 we met our Service Plan objectives on time. In the last fiscal year, we completed on time, over 90% of the objectives we set out in our Service Plan. We met these objectives while keeping costs contained and maintaining a high level of service to market participants and stakeholders, which we regard as a key measure of our success. The objectives we were not able to achieve within our planned time frames related mainly to cooperative initiatives with other Canadian securities regulators. These included the development and implementation of the National Registration Database (NRD) and the System for Electronic Disclosure by Insiders (SEDI). Both systems have since been launched successfully.

Market conditions posed major challenges for the Commission this year, one of the most significant being financial. Like the industry we regulate, we faced a number of operational challenges throughout the year as a result of continued difficult market conditions. One of the most significant of these was adjusting for a decline in fee revenue. During the fiscal year, we collected $1.7 million less in mutual fund fees than budgeted, as a result of a further downturn in that sector. This decline had a substantial negative impact, as it coincided with a temporary fee reduction we implemented to return to industry the surplus accumulated under better market conditions in the preceding years.

The Commission maintains a fee stabilization reserve to mitigate the effects of unforeseen market events. In the coming year, we will have to draw on this reserve for the first time to level out the financial impact of current volatile markets on our revenues.

Despite these pressures, we came in under budget without cutting staff or service levels. While it was a difficult year financially, we managed to keep our total costs to $27.9 million, compared to our budget of $28.9 million. We did this by targeting additional cost savings in several areas. We reduced our reliance on external professional services, for example, the use of outside legal representation in enforcement cases. We also came in well below budget in our travel costs, and lowered our spending on information technology, as we had invested heavily in this area the previous year. As a result of these measures, we were able to perform on or under budget throughout our operation without having to resort to staffing or service cuts.

We use several measurements to ensure we deliver appropriate service to our stakeholders. In 2002-03, market participants told us we were doing a good job. Our commitment is to provide a high level of service to the people who deal with us directly. In the field of securities regulation, this involves deliverables such as providing timely response to requests, demonstrating an understanding of user needs, and solving problems satisfactorily. We measure our success by asking those who depend on our services questions such as: *"were we professional; were we responsive; how quickly did we resolve the issue?"* To gather this feedback, we used three ongoing stakeholder research methods:

- a new real-time website-based feedback system called "Help Us Improve"
- an automated stakeholder survey that conducts polling by e-mail
- a qualitative telephone survey of stakeholders by an independent research firm.

The rating system we use to synthesize this feedback was developed by an outside market research firm. Our objective is to maintain a minimum rating averaged across the Commission in which 80% of responses rate our service as "good" or "excellent," which we did in the past year.

We continued to manage market risks by identifying the most important problems and fixing them. During the year, we continued to address significant market problems. One example of this relates to an issue that arose in our compliance program. Two years ago, in the course of one of our compliance cases, it came to light that there was a gap in our ability to ensure compliance with cease-trade orders imposed against companies whose securities are traded on foreign exchanges and other trading systems, such as the OTC Bulletin Board (OTCBB). Without a Canadian exchange activating a cease-trade order, people trading

in securities could only learn that an order had been issued against a company through the difficult task of reading all of the weekly reports of Canada's 13 securities commissions.

To make this information more easily accessible, we worked jointly with Market Regulation Services Inc., the regulator responsible for overseeing compliance with trading rules on Canada's stock exchanges, to develop a national market alert system called the Cease-Trade Order Database. The system was launched in February 2003. It enables those trading in securities to determine immediately if a security has been cease-traded by a Canadian regulator before a buy or sell order is completed. We funded the project from the proceeds of a settlement with some firms that had inadvertently breached a cease-trade order. I believe this is a good example of how regulators can collaborate to improve compliance.

We are moving in new directions that will bring change to our workplace. We expect to recommend legislation to the provincial government, for possible enactment in 2004, that would significantly streamline and simplify our regulatory requirements. Our proposed legislation represents a new way to regulate that, if adopted, will have a significant impact on our operations and staff. Our processes will obviously change — and jobs will change. However, we believe the new jobs that evolve will be more enriched: our staff will have more latitude to apply judgment, to problem-solve, and to interpret a code of conduct rather than applying a set of prescriptive, inflexible rules.

Our new regulation strategy focuses on enhancing enforcement and increasing investor and industry education. We have set five objectives for the coming year, two continuing from 2002-03 and three others reflecting our new approach to regulation.

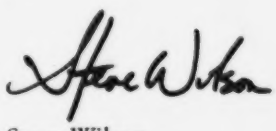
One of our new objectives is to develop better methods of dealing quickly and decisively with illegal market conduct. As we streamline and simplify securities laws, we will implement our fundamental regulatory strategy of backing principles-based regulation with early detection of misconduct and enhanced enforcement.

Another of our initiatives for the coming year is to upgrade our investor and industry education activities. We will expand our industry partnerships, make better use of our Education Fund, and conduct further research to ensure we are addressing the right investor and industry groups with the right messages.

Our third new objective for the year is to review the self-regulatory regime in BC. In recent years, the Commission has moved increasingly toward reliance on self-regulatory organizations (SROs), such as the Investment Dealers Association, to regulate the industry. This delegation of authority comes with the considerable risk inherent in all self-regulatory models: conflicts of interest. For this reason, we will be paying close attention in the coming year to ensuring the effectiveness of our SRO system.

Securities regulation is never short on problems, and to address them successfully, we need to attract and retain top-notch, committed staff. While the complexity and diversity of our regulatory tasks have increased in the last few years, and many jobs have changed as a result, our staff morale is the highest it has been. Today, we have virtually no turnover, whereas in the mid-1990s, we experienced as much as a 40% loss in professional staff over a two-year period. In response to a voluntary survey conducted by Watson Wyatt Data Services, our staff placed the Commission in the top half of the 61 best organizations to work for in BC. These results were mirrored in an internal BCSC staff survey.

I am particularly proud of the record participation of our staff in delivering both investor and industry education programs, most on a voluntary basis. Over 60 staff members devoted personal time to deliver our "Investigate Before You Invest," "Dollars and Sense," and other education programs this year. This level of staff support and commitment suggests to me the Commission is well-positioned to continue to effectively carry out our regulatory responsibilities while we manage the major initiatives ahead.



Steve Wilson
Executive Director

the year in review

Operating Highlights

Consulted with over 1,700 market participants across Canada on securities regulatory reform

Developed and published draft new securities legislation for comment

Under financial constraints caused by depressed markets, kept operating costs $1 million under budget without cuts in staffing or service to stakeholders

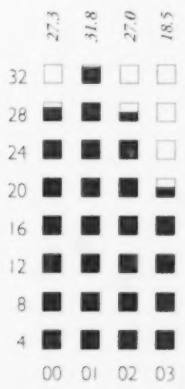
Maintained response of "good" or "excellent" service rating from 80% of direct service users

Launched several electronic databases to assist industry and investors, including "e-services" to help industry track applications; the Disciplined Persons' List and the national Cease-Trade Order Database

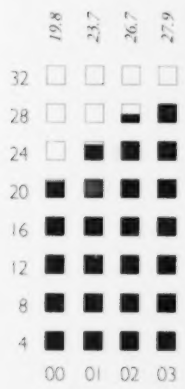
Reduced the length of time required to resolve investigations of *Securities Act* violations

Worked with CSA to launch the National Registration Database (NRD) and System for Electronic Disclosure by Insiders (SEDI) by March 2003 and June 2003 respectively

Financial Highlights



revenues
(in millions)



expenses
(in millions)

Revenues declined during the year as a result of the market downturn and corresponding reduction in fee transactions, combined with a temporary fee reduction we instituted to return prior accumulated surpluses to the securities industry.

Consulted with over 1,700 market participants across Canada on securities regulatory reform

Developed and published draft new securities legislation for comment

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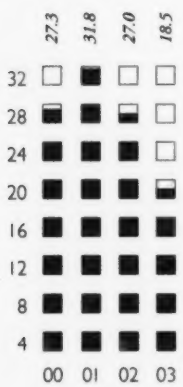
the year in review

Financial Highlights



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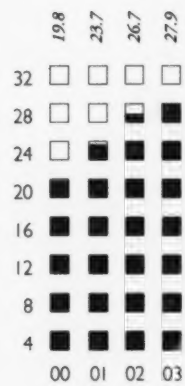

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report on performance

How we set our strategic objectives As stated earlier in our report, we are working toward making British Columbia, by 2005, the best place in North America to invest and raise capital. To achieve this we must be focused, efficient and innovative in carrying out our dual mission to protect investors and foster a dynamic, competitive market. This requires us to make securities regulation more effective, low cost, and tough but fair. ■ Since 2000-01, the BCSC has used a regulatory planning approach, developed by Malcolm K. Sparrow of Harvard University's John F. Kennedy School of Government, that guides us in setting our priorities and allocating our resources for maximum efficiency and effectiveness. This approach focuses regulatory planning on identifying significant risks, problems or patterns of non-compliance and designing solutions that reduce, mitigate or eliminate these problems. The foundation of this planning method is to go through a staged process to pick the most important problems and fix them. We use this approach in determining our priorities each year to make sure we are fulfilling our mission and staying on track toward our vision.

our strategic objectives: the five key problems we are working to solve

In 2002-03 we continued to work on five major problems that we identified and began to address in 2001-02. These are:

1	2	3	4	5
excessive regulatory burden on the securities market	*cost to the market of regulatory delays*	*lack of compliance by some registrants*	*deficient continuous disclosure by some reporting issuers and insiders*	*internet scams and illegal distributions of securities*

The decision to make these problems our top priorities was strongly influenced by the following changes, trends and risk factors currently affecting capital markets:

- the business of capital raising and securities trading has become highly competitive on a global scale
- the world economy has slowed in the past few years, making markets volatile and capital raising both more difficult and more necessary
- technology is driving market innovation and facilitating the creation of new financial products and services
- technology and competition are changing the structure of markets and the roles of intermediaries
- retail investors are participating in the securities markets in record numbers
- fraud artists are using new and creative techniques to target investors

Many of the solutions we have developed to tackle these problems are large initiatives being implemented over a three-year period. The following report on our performance explains the nature of the problems, the importance of solving them if we are to achieve our vision, and the progress we made in 2002-03.

In recent years we have become much more conscious of the need to assess and demonstrate the value of what we do through the use of performance measures. Regulators have traditionally tracked outputs in assessing their progress, even though those outputs may not be a measure of their effectiveness in fixing problems. The planning approach we now follow demands we measure outcomes rather than outputs, forcing us to link what we are doing to what we are trying to achieve.

Reducing the regulatory burden on the securities market

PROBLEM Our system of securities regulation is not as effective as it could be and is more expensive than it should be in the compliance burden it imposes on the market. Industry participants repeatedly tell us they are struggling with too many complicated, rigid, and continually changing rules. This problem works against our mission to foster a vibrant market and protect investors. ■ **First**, the costs and difficulties for market participants of trying to comply with voluminous, complex rules is hampering their ability to do business and raise capital, which drags down the markets and the broader economy. They have to contend not only with a body of old rules that is outdated and written in legal language that is hard to understand, but also with new rules that are constantly being added to the mix. ■ **Second**, in many cases these rules are of questionable value in protecting investors. In fact, they are often counter-productive. For example:

- Some rules make companies provide extensive detailed information that is of little use, and the sheer volume of this information can make it difficult for investors to easily identify crucial facts they need to make investment decisions.
- An endless stream of intricate rules can confuse market participants, causing them to focus on complying with superficial technical requirements or finding loopholes in them, rather than understanding *why* a certain type of conduct is right or wrong.

Consistent with BC's broader deregulation initiative In 2001, the British Columbia government introduced an initiative to reduce the burden of regulation in all fields. It directed regulatory agencies to reduce the number of requirements they impose by one-third by 2004, through cutting unnecessary red tape and regulation that is "obsolete, redundant, wasteful or confusing" and that diminishes economic competitiveness. The government's objective is to move away from a prescriptive, process-driven approach to one that is more effective and results-focused. It does not intend agencies to eliminate measures that are necessary for public protection. The BCSC has accepted the government's challenge. Our solutions to the problem of excessive regulation in the securities market are consistent with the overall provincial approach.

Deregulation Project Administrative Assistant, Anne Gander

Project legal team members *l. to r.*, Sandy Jakab-Hancock, Adrianne Marskell, Leigh Anne Mercier, Brenda Benham

Solutions

1 | DEREGULATION AND UNIFORM SECURITIES LAW (USL) PROJECTS

The BCSC's major initiative to reduce the regulatory burden on the securities market is our Deregulation Project. This extensive effort to streamline and simplify securities laws began in October 2001 and will continue through December 2003, when we deliver a final version of our proposed new securities legislation to the provincial government, and beyond, as we implement the changes our government adopts. The project's goals are:

- to establish a regulatory system that imposes the minimum regulatory burden on industry necessary for investor protection and market integrity
- to ensure that regulatory simplification in British Columbia does not unduly compromise national harmonization

Stakeholders told us they need simpler rules, easier processes **and lower costs.**

ACHIEVED:

BCSC Vice Chair and Deregulation Project Chair, Brent Aitken

Progress made during 2002-03

Building on the work begun in 2001-02, we made significant progress and achieved all of our planned milestones for this major project in the last year:

- Since the initiative began, we have met with over 1,700 market participants across Canada in various forums. Throughout the year, we continued with our plan to consult and solicit feedback from issuers, dealers, advisers and investors from across the country.
- In June 2002, we published for comment *New Proposals for Securities Regulation*, an outline of our major proposals for reform.
- In October 2002, we published *Better Disclosure, Lower Costs: A Cost-Benefit Analysis of the Continuous Market Access (CMA) System*. It showed that our proposed new disclosure and securities offering system, which would provide better disclosure for investors, would also save companies millions of dollars in prospectus preparation and filing costs, and decrease their time to market by up to one-half.
- In November 2002, we published for comment *New Proposals for Mutual Fund Regulation*, a plan to modernize mutual fund regulation by replacing many detailed, often counter-productive rules with a streamlined set of requirements.

As a result of these steps, we were able to release on schedule, immediately subsequent to the fiscal year end, *The BC Model* — a four-volume publication containing draft legislation, commentary, a guide for issuers, and a guide for dealers and advisers — that embodies our new approach to regulation. This state-of-the-art regulatory system is based on our direct experience, extensive input from market participants, and foremost concepts currently being advocated by many respected international regulators and industry observers.

Streamlining and simplifying the rules

Number of rules at start of initiative:

2001 ——► 21,316

One-third reduction by target date:

2004 ——► 14,211

Stakeholders told us they need simpler rules, easier processes **and lower costs.**

ACHIEVED:

- streamlined regulations and wrote them in plain language
- cut redundant, out-of-date rules
- designed a new disclosure system that cuts issuers' time and costs
- launched a national database to harmonize and speed up registration
- improved our understanding of the technology sector
- launched new electronic tools for industry to speed up routine regulatory tasks

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Solutions continued

The BCSC's proposed legislation

Our objective is to create a responsive and flexible system of regulation that is efficient for the regulated community and effective at protecting investors. To achieve this, we propose to streamline and simplify securities laws by eliminating redundant and out-of-date requirements, clarifying those that remain, and using plain language that is easily understood by industry and the investing public. Our approach emphasizes understanding and education, and strengthens deterrence with new investor remedies and enhanced enforcement powers.

The corporate scandals involving companies such as Enron and WorldCom in the United States have shown that prescriptive rules do not ensure the protection of investors or market integrity. These breaches of public trust happened in a regulatory environment that has more complex securities rules than anywhere else in the world.

As a more effective solution, simplified rules highlight the fundamental principles of securities regulation. Our draft legislation is designed to make industry participants focus on what is right for investors and markets, and to discourage hunting for loopholes, while offering reductions in compliance time and cost.

Interface with national initiatives

Canadian governments and regulators are now reviewing the structure and approach of our regulatory system. The focus is mainly on minimizing the differences among the country's regulatory jurisdictions. An example is the CSA's proposal for uniform securities laws across Canada, published in January 2003. Harmonization is important and we have been active participants in the Uniform Securities Legislation Project (USL) project. However, as discussed in last year's annual report, we do not believe uniformity alone will solve the market's problems. In fact, our CMA cost-benefit study showed that Canadian issuers spend 87% of their compliance time on regulations that are already harmonized. The USL approach offers few solutions that address this compliance burden. Nor does it offer much improvement in investor protection, apart from building in some enforcement and liability provisions already proposed or adopted in one or more jurisdictions.

Many market participants have told us they would like to see our approach to securities regulation adopted nationally, believing it can do a better job of protecting investors and supporting competitive markets. However, our CSA colleagues have told us they are not prepared to move beyond the current scope of the USL proposal because they believe it would take too long to pursue more fundamental reform. Neither we nor market participants in British Columbia

Deregulation Project legal team member, Leigh Anne Mercier

want our province to be forced to choose between harmonized securities rules and more fundamental reform. To bridge the gap between our proposed legislation and the current and proposed legislation elsewhere in Canada, we recommend a "harmonized interface" that would allow market participants to do business almost seamlessly in British Columbia and other provinces even if we adopt different legislation.

Our draft legislation, published on April 15, 2003, is open for comment until July 31, 2003. In the coming year, we will consult further with all stakeholders, make refinements based on the feedback we receive, complete regulatory impact and cost-benefit analyses on the major reforms, and submit our final recommendations to government by December 2003. Concurrently, we continue to work with other Canadian regulators to reduce the burden of regulation on the securities market.

2 | WORK WITH CSA TO DEVELOP A NATIONAL REGISTRATION DATABASE (NRD)

Under our current legislation, an individual employed by a dealer or adviser must register annually with the provincial securities regulator in each jurisdiction where the individual has clients. The NRD is a web-based system that permits this registration to be done electronically instead of using a paper-based process. The system has been designed, in consultation with industry, to harmonize and speed up the registration process for registrants across Canada, who can now file one application to register in multiple jurisdictions. We met our objective for the year, which was to implement the necessary changes to our internal system. We had originally targeted November 2002 as a launch date, but due to technical challenges, the start date was postponed to March 2003.

l. Deregulation Project Communications Officer, Brenda Lea Brown

r. legal student, Catherine Anderson

3 | NEW ECONOMY AND ADOPTION OF TECHNOLOGIES (NEAT)

The New Economy and Adoption of Technologies initiative began in late 2001 to open a dialogue between the Commission and BC's technology industry, a dynamic and growing part of the province's economy. NEAT has surveyed industry participants, interviewed industry executives, and held forums with major industry groups. Its purpose has been to find out first-hand what technology-based companies see as major business obstacles resulting from securities regulation or regulators' lack of understanding of their industry.

In continuation of this work, we met the following objectives for 2002-03:

- In May, 2002 NEAT selected a team of industry leaders to serve as special advisers to the BCSC on securities regulatory issues impacting new economy business.

Solutions continued

- In December 2002, we published NEAT's report, *Making Securities Regulation Work for BC's New Economy*. The report outlines ways in which we can help start-up companies in high technology and other emerging sectors find financing for their businesses by ensuring they are not hampered in their capital raising efforts by unnecessary regulations. The report was distributed to provincial technology business leaders and their advisers, as well as to other regulatory and provincial agencies and interested parties.
- Several of the recommendations in the report are reflected in the draft legislation we published on April 15, 2003.

4 | DEVELOP BETTER WEBSITE AND OTHER TOOLS TO ASSIST INDUSTRY WITH ROUTINE REGULATORY REQUIREMENTS

Deregulation Project Head, Brenda Benham

Another way we are trying to reduce regulatory burden is by using our website to offer better tools to industry that speed up routine regulatory tasks. Our objective for the year was to devise a work plan based on input from each of our operating divisions. As a result, we were able to implement the following website improvements and features:

Disciplined Persons List

In January 2003, we launched the "Disciplined Persons List," an alphabetical listing of all individuals who have been sanctioned by the Commission since 1987 for securities market misconduct. Common violations include illegal distributions, fraud and unregistered advising, and sanctions include trading bans and financial penalties. The investing public and industry can also research the backgrounds of individuals they are dealing with when they consider investments. Since the list was launched, we have received positive feedback on its utility and ease of use. In the coming year we will more formally measure user satisfaction.

Deregulation Project legal team member, Sheryl Thomson

Securities Act Online

We have launched an online version of the *Securities Act, Rules and Regulations* to provide easy access for those who need to refer to the regulations. This complements our existing online regulatory documents database, which provides access to local and national instruments, policies and notices, and regulatory orders and decisions.

"Compliance Toolkit"

During the year we added the "Compliance Toolkit," to our website for the use of industry participants who need easy access to compliance information in their day-to-day operations. It provides frequently requested information about securities rules and regulations governing registrants.

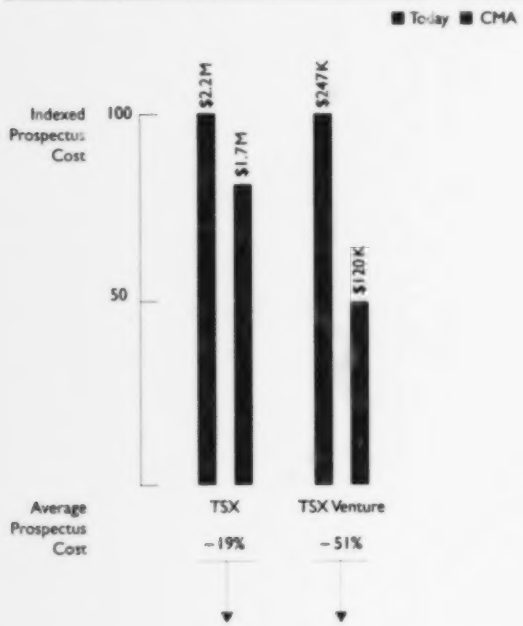
Online Survey System

We implemented an online survey system called "Help Us Improve" that allows BCSC website users to submit their comments about the Commission. This feedback is one of the tools we use to help us stay responsive to the public, industry and other stakeholders.

L to r. BCSC General Counsel, David Thompson, Deregulation Project Administrative Assistant, Fran Macrae, legal team member Wendy Woloshyn and student Catherine Anderson

Under BCSC's proposed Continuous Market Access (CMA) System, issuers would save $170 million in net present value over five years in reduced prospectus preparation and filing costs.

IPO disclosure cheaper under CMA



Source: Better Disclosure, Lower Costs: A Cost-Benefit Analysis of the Continuous Market Access (CMA) System, October 2002

2 Speeding up regulatory processes to reduce the cost of delays

PROBLEM A significant problem we have continued to address in the past year is the cost to market participants of lengthy regulatory processes. The market suffers when issues are not dealt with promptly, and investors lose confidence when they do not see swift and decisive action. In keeping with our mission to protect investors and market integrity, it is important that we have the ability to respond quickly so stakeholders' interests are not compromised by regulatory delays. This problem applies both to BCSC and CSA initiatives.

Solutions

1 | PROBLEM IDENTIFICATION

A key objective for the year was to develop a risk management-based process to respond more quickly to compliance problems and patterns of misconduct. The goal is to identify potential issues and head them off before they seriously harm investors or market integrity.

As targeted, in June 2002, we established a problem identification task force to help us define current and emerging market risks. The task force is made up of BCSC staff, other regulators and industry participants, and is led by our Executive Director. On a quarterly basis, the task force:

- solicits nominations of important problems in the market, or other emerging regulatory issues
- evaluates the nominations to select issues to be addressed
- develops solutions and monitors their implementation

As a result of this process, we identified illegal distributions targeting seniors as a problem to which we could respond faster. Our Enforcement staff worked with the BC Crime Prevention Association, a province-wide group of law enforcement officials and citizen volunteers, to create "Ad Watch." Under the program, launched in March 2003, BCSC staff are training seniors volunteers in several communities to scrutinize local newspapers for suspicious advertisements boasting schemes that promise large returns to investors. Our Enforcement Division will be following up on any information reported by this volunteer group.

2 | DEVELOPMENT OF NEW INSTRUMENTS

This project set out to ensure the development of new rules is relevant, timely and consistent with our goal to reduce the regulatory burden. Its mandate is to:

- review all ongoing initiatives to develop new instruments each quarter to make sure they meet BCSC priorities and are consistent with our streamlining goals
- ensure there is a work plan for each initiative within one month of assignment
- ensure that all new initiatives follow the standard process for adopting new instruments

We achieved the project success measure of completing 85% of all local initiatives to develop new instruments within our work plan time frames.

We need to resolve issues of market misconduct **before they cause serious harm to investors and market integrity.**

3 | INFORMATION SYSTEM

An essential Commission function is reviewing applications from market participants for relief from regulatory requirements. These are often very time-sensitive. In 2002-03, one of our initiatives was to develop a computerized information system to speed up completion of relief applications through streamlining our procedures for:

- allocating resources
- developing staff proficiency
- communicating with industry

As a result, "e-services" was launched in March 2003. This service allows persons to apply for local exemptions via an interactive web-based system and track their applications online. It also helps users tailor their requests for local and national exemptions by allowing them to conduct research into previous similar applications. The system's main users will be securities lawyers and company officials who need an exemption under securities laws for certain transactions. As e-services was launched at the end of the fiscal year, its effectiveness will be assessed in 2003-04.

4 | PROCESS REVIEW

To ensure our internal activities do not cause undue delays for market participants, during the year we launched a project to review and audit processes within the Commission to see how we can streamline day-to-day functions. All operating groups within the BCSC will be required to:

- review specific processes to ensure continuing relevance, effectiveness and efficiency
- eliminate or revise processes as dictated by the results of the review
- survey stakeholders to assess the effectiveness of new processes
- subject all processes to review between six months and one year after adoption
- communicate the results of the surveys to industry and to staff

We set a September 2002 deadline to do this and two out of the four participating divisions completed the review in this time frame. The other two reviews have been rescheduled for the coming year, one due to conflicts with the major system launch of the NRD, and the other because a separate review was being conducted at the same time.

5 | APPLICATIONS PROCESS REVIEW

Another goal is to speed up procedures we handle cooperatively with other Canadian regulators. Last year we addressed the process for reviewing applications market participants are required to file in more than one jurisdiction. Working with the CSA Mutual Reliance Review System (MRRS) Committee, we reviewed the national policy that allows an applicant to file with one principal regulator and have that regulator act as the main reviewer of the application. This policy was designed to reduce unnecessary duplication. Our review, including recommendations for improvement, was completed in June 2002 as planned. Policy amendments were introduced in July 2002 that shorten the time required for applicants to use the system, resulting in fewer delays for those needing flexibility to conduct their business transactions.

BCSC Chair, Doug Hyndman, addresses conference

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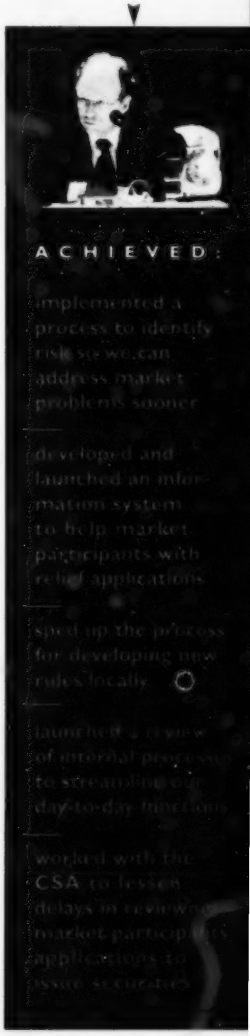
ACHIEVED:
implemented a process to identify risk so we can address market problems sooner
developed and launched an information system to help market participants with relief applications
sped up the process for developing new rules locally
launched a review of internal processes to streamline day-to-day functions
worked with the CSA to lessen delays in reviewing market participants' applications to issue securities

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We need to resolve issues of market misconduct **before they cause serious harm to investors and market integrity.**

3 | INFORMATION SYSTEM

An essential Commission function is reviewing applications from market participants for relief from regulatory requirements. These are often very time-sensitive. In 2002-03, one of our initiatives was to develop a computerized information system to speed up completion of relief applications through streamlining our procedures for:

- allocating resources
- developing staff proficiency
- communicating with industry

As a result, "e-services" was launched in March 2003. This service allows persons to apply for local exemptions via an interactive web-based system and track their applications online. It also helps users tailor their requests for local and national exemptions by allowing them to conduct research into previous similar applications. The system's main users will be securities lawyers and company officials who need an exemption under securities laws for certain transactions. As e-services was launched at the end of the fiscal year, its effectiveness will be assessed in 2003-04.

4 | PROCESS REVIEW

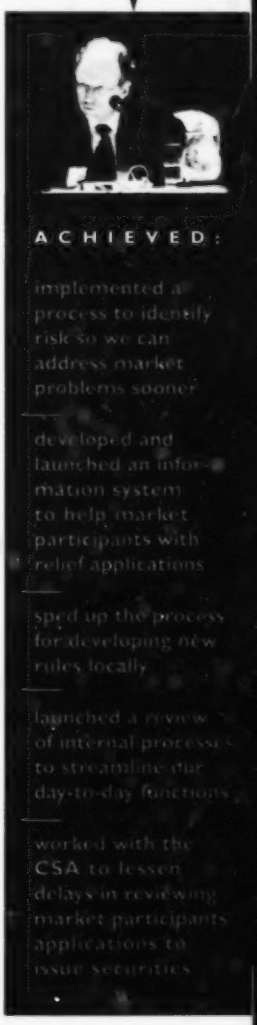
To ensure our internal activities do not cause undue delays for market participants, during the year we launched a project to review and audit processes within the Commission to see how we can streamline day-to-day functions. All operating groups within the BCSC will be required to:

- review specific processes to ensure continuing relevance, effectiveness and efficiency
- eliminate or revise processes as dictated by the results of the review
- survey stakeholders to assess the effectiveness of new processes
- subject all processes to review between six months and one year after adoption
- communicate the results of the surveys to industry and to staff

We set a September 2002 deadline to do this and two out of the four participating divisions completed the review in this time frame. The other two reviews have been rescheduled for the coming year, one due to conflicts with the major system launch of the NRD, and the other because a separate review was being conducted at the same time.

5 | APPLICATIONS PROCESS REVIEW

Another goal is to speed up procedures we handle cooperatively with other Canadian regulators. Last year we addressed the process for reviewing applications market participants are required to file in more than one jurisdiction. Working with the CSA Mutual Reliance Review System (MRRS) Committee, we reviewed the national policy that allows an applicant to file with one principal regulator and have that regulator act as the main reviewer of the application. This policy was designed to reduce unnecessary duplication. Our review, including recommendations for improvement, was completed in June 2002 as planned. Policy amendments were introduced in July 2002 that shorten the time required for applicants to use the system, resulting in fewer delays for those needing flexibility to conduct their business transactions.



ACHIEVED:

- implemented a process to identify risk so we can address market problems sooner
- developed and launched an information system to help market participants with relief applications
- sped up the process for developing new rules locally
- launched a review of internal processes to streamline our day-to-day functions
- worked with the CSA to lessen delays in reviewing market participants' applications to issue securities

BCSC Chair, Doug Hyndman, addresses conference

3 Increasing compliance among registrants

PROBLEM BCSC and IDA reviews have demonstrated that some registered securities dealers do not meet their compliance obligations. The reputation of BC's capital markets is harmed when registrants participate in inappropriate and illegal activities, whether in local or foreign markets. Our regulatory system relies on registered firms and their representatives to play an effective role as the front line of regulation. However, examinations of some firms have shown deficiencies in their sales compliance practices.

Solutions

1 | COMPLIANCE CULTURE

Our core objective for the year in addressing the problem of lack of compliance was to step up our efforts to develop a "compliance culture" among all registrants, based on:

- building support at the most senior levels of each firm
- ensuring registrants focus on doing what is right, not what can be done without detection
- ensuring registrants do not just obey the rules, but understand and follow the "spirit" of the rules
- actively cooperating with industry compliance staff, SROs and other provincial regulators to identify and resolve failures to meet appropriate standards of conduct

To accomplish this, we have been working closely with the IDA, which is the main securities industry trade association and SRO, and its member firms to take a more active role in developing a compliance culture in the brokerage industry. During the year, as planned, we addressed four key areas of activity:

- Carrying through on a program started in 2001, we continued efforts to advise registrants of our expectations. We published regular articles on compliance matters and best practices in our *Registrant* newsletter that is distributed several times a year to individuals and firms that sell securities in BC. We also use this publication to describe regulatory changes and their significance in plain language. Having advised registrants of our expectations, we followed up with appropriate compliance and enforcement measures in areas of non-compliance.
- BCSC staff from the Capital Markets Regulation Division made four presentations over the year to IDA member firms, their compliance staff and registered representatives. These sessions emphasized the importance of registrants' gatekeeper responsibilities and the Commission's focus on improving compliance at brokerage firms.
- Another of the year's projects was the development, with the IDA, of an annual report to IDA members on their compliance performance. In fiscal 2001-02, we successfully introduced the concept of compliance "report cards" for another industry segment, portfolio managers. However, for IDA firms that operate on a national level the report card proved to be impractical to implement on a

regional basis. Instead, we are exploring with the IDA whether this can be done on a national level for all firms.

- We also met our objective of assisting the IDA to implement monitoring systems and pre-registration review procedures to identify, monitor and, when appropriate, refuse the reinstatement of non-compliant representatives.

In 2001-02, we noted that we needed to work on improving the compliance level of non-IDA member firms as well. These include mutual fund dealers and portfolio managers. This year, Commission staff conducted numerous presentations on compliance practices for these firms. We also hosted the second annual Adviser Forum in Vancouver in January 2003, which included compliance issue workshops for investment counsel and portfolio managers.

Overall, we had set as an objective for the year achievement of an across-the-board 30% reduction in major sales compliance deficiencies. However, we were unable to meet that target. Although we achieved success with some firms, compliance problems increased in others, despite using the same approaches to encourage compliance. We believe that several factors, both inside and outside the firms, including provincial versus national compliance priorities, may account for the mixed results. We are currently reviewing our criteria to determine if setting an across-the-board reduction target is a valid measure, or if other more tailored measures should be applied so we can fairly assess compliance improvements.

2 | CEASE-TRADE ORDERS

Registrants have told us they find it difficult to monitor compliance with cease-trade orders issued by each province because there is no convenient public database. Our objective was to devise, in conjunction with industry, a method to make a list of cease-trade orders and other public enforcement information readily available nationally. During the year, we completed the development of a national database that provides easy online access to cease-trade order information. The project was funded from settlement payments by investment firms that violated cease-trade orders. The Commission spearheaded the effort to develop the database in partnership with the CSA and Market Regulation Services Inc. The system was successfully launched in February 2003.

Capital Markets Regulation staff, Lynda Smith and Michael Sorbo

To protect investors and BC's capital markets, individuals and firms that sell securities must adopt a culture of compliance.

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ACHIEVED:

- advised registrants of our expectations through targeted newsletters on their responsibilities and regulatory matters
- worked closely with SROs to improve compliance among their member firms
- tested ways of measuring sales compliance improvements
- spearheaded a national database system that provides online access to cease-trade order information

To protect investors and BC's capital markets, individuals and firms that sell securities must adopt a culture of compliance.

4 Improving public company disclosure

PROBLEM Corporate accounting scandals, economic conditions and their combined negative impact on North American capital markets have resulted in a new emphasis on public company accountability. From an investor's perspective, a company's "continuous disclosure record" — regulatory filings and other communications with shareholders and potential investors — is the only basis available for assessing its performance and integrity. With technology providing greater access to new sources of information, investors and their advisers rely on timely, accurate and balanced public company disclosure from these sources to help them make informed investment decisions.

As part of BCSC's Continuous Disclosure Review (CDR) Program, we regularly review samples of the information filed by the approximately 1,800 BC-based public companies we regulate to ensure they comply with disclosure standards. Results of this program indicate that the quality of disclosure, particularly Management Discussion and Analysis (MD&A) and insider reporting, needs improvement.

Solutions

1 EDUCATION ON DISCLOSURE REQUIREMENTS

A key objective for 2002-03 was to measurably improve public company disclosure through educational efforts. One of the ways we do this is through comment letters to companies reviewed in our CDR program. The main purpose of these letters is to educate issuers, insiders and their advisers on the nature and extent of their disclosure requirements and needed improvements. Another core education initiative is our publication, *Continuous Disclosure Update*. Over the past year, we published three Updates on common disclosure problems, insider reporting requirements, and what companies can expect if they become the subject of a review.

In addition to our publications, staff from the Corporate Finance Division conducted educational seminars for issuers and their professional advisers, including two workshops on mining disclosure standards. Staff also developed and delivered a comprehensive course on Management Discussion and Analysis for the BC Institute of Chartered Accountants.

2 POST REVIEW SURVEY

To measure the success of our continuous disclosure improvement initiatives, we conducted an internal examination of randomly chosen samples from issuers we oversee. Commission staff rated samples from 15 companies we reviewed the year before and 19 companies we had not reviewed previously. We found that 44% of the companies examined showed positive improvement in the quality of their disclosure. This result was supported by a survey conducted by an independent research company of 1,241 junior companies. Of 153 who responded to the survey, 75% reported a noticeable improvement in the general quality of disclosure provided by junior companies.

Today more than ever before, investors require accurate, timely and balanced information **from public companies.**

3 | RECURRING DISCLOSURE PROBLEMS

Over the past year, we strengthened our compliance activity with the creation of a dedicated disclosure compliance department. This team ensures there are consequences for serious and intentional disclosure failures. These range from disclosure corrections and refilings to regulatory sanctions, including cease-trade orders, market suspensions and financial penalties against issuers and management.

continuous disclosure reviews completed

In 2002-03 we increased the total number of continuous disclosure reviews completed from 156 to 201, in part, by focusing on specific aspects of disclosure and implementing a risk-based approach to selecting companies for review. For example, in the mining sector, while proper financial reporting is essential, we are concentrating on improving technical disclosure, as it can be more important to investors in their decision-making.

Other issue-specific reviews centered on the quality of MD&A and the completeness of executive compensation disclosure. In a joint initiative with other CSA members, we reviewed how companies disclosed compensation for their executives. In November 2002, the CSA released the *Report on Staff's Review of Executive Compensation Disclosure*, which noted that 95% of the compensation committee reports of companies examined required improvement. The report cited the need for companies to explain more clearly their reasons for salaries and bonuses paid, options granted, and other compensation awarded to their executive officers. Each participating commission sent comment letters to the companies reviewed in their jurisdiction and received commitments from those companies to improve their disclosure.

4 | INSIDER REPORTING

Another disclosure problem we targeted during the year was compliance with insider reporting requirements. Unfortunately, while the vast majority of directors and officers of public companies want to comply with disclosure requirements, and respond positively to education programs, the few who do not significantly damage confidence in our capital markets. This hurts both investors and companies whose insiders comply.

To address this, we developed a review program to compare insider share positions reported in various issuer disclosure documents and filings with insider reports. We looked at a sample of 134 issuers. In only 40 of those samples did the insiders appear to fully comply with insider reporting requirements. We delayed the development and implementation of a compliance plan based on these results pending implementation of the System for Electronic Disclosure by Insiders (SEDI).

Last year, we reported that we had encountered problems and delays in completing development of SEDI. The system, which will eliminate paper filing of trading reports by providing a single electronic system for filing and public viewing, was brought online and made available for filings in January 2002. However, it was shut down due to performance deficiencies. Since that time, we and other CSA regulators have worked with CDS Inc., the system operator, to fix the technical problems and bring the system back into use. It was reactivated after the fiscal year end, in May 2003.

Capital Ideas conference attendees

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ACHIEVED

Capital Ideas conference attendees

5 Combating internet scams and illegal distributions of securities

PROBLEM *Internet scams* Con artists continue to use the internet to contact large numbers of potential investors and to create an illusion of substance to support old-fashioned scams. This is a worldwide problem: these scams are difficult for regulators to detect and investigate, and require coordinated action on a national and international basis. We are working with other Canadian and foreign regulators to conduct internet reviews and sweeps in a global effort to fight securities fraud.

Illegal distributions The illegal distribution of securities is a broad problem, ranging from fraud at one end of the scale to simple ignorance of the rules at the other. Within this range, we are focusing on two problems: affinity fraud, in which a fraud artist intentionally builds an affinity, or bond, with investors for the purpose of swindling them, and illegal distribution of securities by those who ignore securities rules governing these transactions. ■ We recognize that the best solution to the problem of investment fraud is not only after-the-fact enforcement, but proactive deterrence and education initiatives. This is consistent with the CSA's core strategy to provide effective deterrence of abusive, unfair and fraudulent practices through aggressive coordinated enforcement.

Solutions

1 | WEB-CRAWLING SOFTWARE

To detect internet scams, we planned to acquire web-crawling software in addition to software we already have to monitor particular websites. However, it proved to be too costly. Instead, we decided to continue monitoring activities through our investigations team without this added technical aid.

2 | CREATE A TEAM OF INVESTIGATORS TO DEAL WITH ILLEGAL DISTRIBUTIONS

When people illegally distribute securities, they contravene the *Securities Act* and can undermine public confidence in the capital markets. The Commission's goal is to reduce, by March 2005, the number of inadvertent illegal distributions — those that are not intentional violations of the *Securities Act* — by 20%. During 2002-03 we created a team of investigators to deal with illegal distributions. In October, the team began classifying cases as either intentional or inadvertent. Of 28 complaints reviewed, three cases, or 11%, were classified as inadvertent. There is generally at least a one-year lag time from the time a security is illegally distributed to the time when the investors realize they have a problem retrieving their funds and file complaints with us. Therefore, we do not expect to be able to measure the effects of this initiative until closer to the end of the project in 2005.

3 | AFFINITY INVESTOR AWARENESS

We also made good inroads with church groups and other associations in our fight against affinity fraud, which was one of the year's prime objectives.

In the last five years, there has been an increase in the number of investment frauds involving members of religious communities. The most notable involved a defrocked pastor who defrauded more than 300 members of a Fraser Valley church of some $11 million. In order to combat this disturbing trend, the Commission produced a 19-minute video, *Preying on Those Who Pray*, which details the widespread problem of affinity fraud. Using interviews with victims and other information, the video focuses on how con artists exploit the common bonds within religious, ethnic and other groups to gain trust, and then defraud group members of their money. The video was featured on the CTV National News as well as in other broadcast and print media. BCSC staff have shown the video to several church groups and we have developed a plan for distributing the video more broadly throughout the province.

4 | INFORMATIONAL BROCHURE

One of the best ways to fight illegal distributions is through educational initiatives that alert market participants to situations in which this can happen, whether intentionally or inadvertently. In January 2003, we produced and disseminated to businesses more than 2,000 copies of a brochure that explains to private companies illegal distributions and how they can avoid participating in them. The brochure is intended to help companies understand the province's securities laws and how they can raise capital legally. We plan to measure the effectiveness of this program by gauging if there has been a decline in the number of cases of inadvertent illegal distributions.

Enforcement staff, Wietzke Gerber and Paul Bansal

Enforcement and education are the best tools we have to stop investors from being victimized.

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Enforcement staff, Wietzke Gerber and Paul Bansal

ACHIEVED:

- created a team of investigators to categorize and deal with complaints about illegal distributions of securities
- continued to work with other regulators nationally and internationally to fight internet fraud
- made presentations to church groups throughout BC to heighten awareness of fraud
- produced and distributed information brochures to private companies explaining BC's securities laws and how to avoid being part of illegal distributions

Enforcement and education are the best tools **we have to stop investors from being victimized.**

education initiatives

As we explore new avenues for increasing investor awareness and self-protection, and improving industry compliance with the *Securities Act*, communications and education have become core activities for the BCSC. Often, the Commission does not learn about wrongdoing against investors until the damage is done and reported to staff. Therefore, we have increasingly emphasized prevention through investor self-protection, because we believe a well-informed investor is the best defence against fraud and inappropriate investments. ■ During the year, a special committee of commissioners took a close look at what we have done in investor and industry education and what we need to do in the future. The committee concluded that we need to undertake more research so we can better understand the educational needs of the investors and industry players we are trying to reach, and how best to reach them. The committee also found that we need to assess our existing partnerships in education and explore new ones. Plans to improve in these areas will be pursued in the coming fiscal year.

INVESTOR EDUCATION INITIATIVES

The BCSC has identified seniors and youth as prime audiences for its investor awareness and education programs. Research shows that seniors are among the investors most vulnerable to fraud and inappropriate investments. Also, they often suffer the greatest harm because, compared with other investors, they have fewer resources and less time to recover from being victimized. ■ Commission staff play a key role in our investor education activities. During 2002-03, approximately 55 BCSC employees volunteered their time to participate in our Staff Ambassador Program, delivering over 50 seminars to seniors, youth groups and the general investing public. This effort more than doubled that of the previous year. All employees who participate are given public speaking training. During the year, staff from the Commission's Communications and Education department appeared on two television news shows and conducted several newspaper and radio interviews about investor education.

Programs Targeting Seniors

■ We continued our partnership with the Seniors Foundation of British Columbia, with a $75,000 grant from our Education Fund to support 18 *Investigate Before You Invest* seminars during the year, reaching more than 1,000 seniors throughout British Columbia.

■ We also formed a new partnership with the Canadian Association of Retired Persons (CARP), staging seminars in Victoria, White Rock and Langley in the fall of 2002 and spring 2003, attracting more than 200 people.

■ In October, the Commission participated in the Penticton Seniors Symposium, which attracted 5,000 people over two days. We distributed several hundred investor education kits and staged four seminars during the exhibition.

Programs Targeting Youth

■ In 2002-03 the Commission approved $160,000 in funding for the third year of the Junior Achievement "Dollars and Sense" program, supporting delivery of 200 classes to Grade 8 students throughout the province. Approximately 30 BCSC staff teamed with colleagues in the financial services community to teach the day-long classroom course. They taught a total of 153 classes, representing some 4,000 students. The number was below target due to cancellations and school resource issues that arose on short notice. Nevertheless, demand for the program, initially developed with BCSC funding, remains high. Junior Achievement Canada has recognized the program as so successful that it is considering offering it nationally.

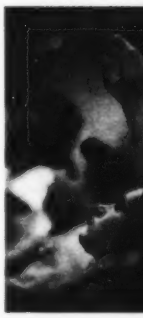
■ In September 2002, the Ministry of Education announced it was considering making a personal financial management course mandatory for all Grade 10 students. The Commission offered to assist toward that goal. In a project led by BCSC Vice-Chair Adrienne Salvail-Lopez, the Commission explored, through two symposiums hosted by the Ministry, the potential for reaching youth through the provincial school curriculum. Discussions on this potential partnering initiative will continue in the coming year.

■ In cooperation with our CSA partners, the BCSC contributed to several national initiatives during the year. Among these were a Scouts "I Invest" badge program and segments of the CBC program *Street Cents*, aimed at teaching Canadian youth about saving and investing, as well as the redrafting of several CSA Investor Education kit brochures.

■ In March 2003, the Minister of Competition, Science and Enterprise presented a $750 cash prize to a Vancouver high school student who wrote the winning essay in British Columbia as part of a nationwide contest sponsored by the CSA.

Programs Targeting Broad Investor Audiences

■ Over the year, we expanded our partnerships with the credit unions of BC to reach a broad audience of investors. We held more than 50 seminars, including 25 co-hosted with BC's largest credit union, VanCity Savings Credit Union, that drew more than 650 people. We also made a presentation to approximately 40 credit unions at the Central Credit Union's semi-annual meeting in Vancouver in April 2002. In November 2002, BCSC's Chair spoke to the same body, encouraging credit unions to continue working with the Commission to provide investor education to their members.



■ To increase audience draw for our investor education seminars, we did 15 joint presentations with the Better Business Bureau of Mainland British Columbia, which added its presentations urging consumer self-protection against marketplace fraud to our standard investor seminar program.

■ The Commission completed disbursement of a $172,000 grant to the Investor Learning Centre to distribute 17 investor self-help books to all 250 public library branches in British Columbia and promote circulation of the books. The program's purpose was to increase access to information for investors to help them become more prudent and informed. In their feedback to the BCSC, librarians have indicated that making these books available helps increase reader understanding and that the books have been well-used. The Commission will be auditing circulation figures to measure the program's effectiveness. A portion of the grant went

to support the Centre's investor help line. However, after a decision by the Centre to move its Western Canadian operations to Toronto, the Commission ended its financial support of the program, returning to the Education Fund approximately $40,000 remaining in the grant.

BCSC Executive Director, Steve Wilson, speaks to participants at industry conference

INDUSTRY EDUCATION INITIATIVES

While the BCSC recognizes it must take swift action against wrongdoers to send a strong message to the securities industry, sanctions and other deterrence measures are only one means of doing so. In most cases, non-compliance results from ignorance rather than an intention to break the law. Industry must first understand the regulations before they can comply with them. With that goal in mind, we pursued a number of industry education initiatives throughout the year.

- The BCSC staged its second Capital Ideas industry conference in June 2002, drawing more than 200 registrants, issuers, securities lawyers and other members of the securities industry. The one-day event gave the Commission the opportunity to explain its new approach to regulation and its project to streamline and simplify our rules.

- We held a one-day seminar in June 2002 to explain to mining executives the principles and application of National Instrument 43-101, *Standards of Disclosure for Mineral Developments.* A survey of the 125 mining industry delegates who attended provided positive feedback on the seminar content and structure.

- The BCSC staged two national private placement seminars to inform market participants about regulations governing the raising of capital through private placements. We produced a brochure outlining regulatory requirements for private and early stage businesses raising capital.

- We continued to produce publications to support our industry education program, including *The Registrant,* delivered by mail to 28,000 registrants, and *Continuous Disclosure Updates,* distributed electronically and by mail to more than 2,500 reporting issuers. These are the only publications of their kind issued by a securities regulator in Canada. In cooperation with three other Canadian regulators, the BCSC reprinted for distribution to mining companies across Canada its plain language brochure on disclosure standards for mineral developments.

- Plain language is critical to effective securities regulation, including efforts to educate investors and industry. The Commission published plain language guidelines in June 2002 and continued to train staff in plain language use. The BCSC was one of two government agencies in Canada that made a presentation to an international conference on plain language in September 2002 about the challenges of applying plain language principles in a regulatory environment.

enforcement

Regulatory requirements are effective only if they are enforced. We employ a variety of tools to encourage market participants to comply with regulatory standards, but the ultimate tool is a credible enforcement program to deter inappropriate and illegal conduct by market participants. Enforcing the Securities Act *is a central part of fulfilling our mission to protect investors and ensure fair and efficient capital markets.*

Our process for dealing with misconduct starts with the Case Assessment Team receiving complaints from a number of sources: investors, securities industry participants, referrals from other agencies, referrals from the BCSC Surveillance and Investigation Unit (SIU), or referrals from BCSC staff in other divisions. Last year, this team handled 410 cases, of which 135 involved civil disputes outside our mandate, 112 related to unregistered trading, 112 involved registrant misconduct, 100 involved fraud, and 75 were related to illegal distributions.

The Case Assessment Team handles cases in different ways, depending on the circumstances. They can be passed on to other regulators and law enforcement agencies, resolved through staff action, such as a caution letter, or referred to the Commission's Investigation Branch for further investigation. Some complaint files may be closed with no action taken, for example, if we decide it is not in the public interest to pursue them. Complaints involving compliance issues may be referred to the BCSC's Capital Markets Regulation or Corporate Finance Divisions if they involve individuals licenced to trade or advise in securities, or directors, officers or insiders of public companies.

If a staff investigation produces appropriate evidence to support allegations of misconduct, the Executive Director can initiate an enforcement proceeding by issuing a Notice of Hearing. A panel of commissioners then conducts a hearing to consider the allegations and any enforcement orders requested by staff. Alternatively, a person against whom allegations are made can agree to a negotiated settlement with the Executive Director by admitting misconduct and consenting to enforcement orders, financial payments and other appropriate remedies.

Since our last annual report, the BCSC has issued 52 enforcement orders against, and received 30 undertakings from, persons found responsible for market misconduct. This included fraud, illegal distributions of securities, unregistered trading, registrant misconduct, insider trading, and failure to file insider reports.

How the BCSC handles Enforcement cases

THE PROCESS STARTS WITH:

- a complaint from an investor or securities industry participant
- a referral from another agency
- a referral from the BCSC Surveillance and Intelligence Unit
- a referral from BCSC staff

AFTER REVIEWING THE COMPLAINT, IT IS:

- resolved through staff action (such as a caution letter)
- referred to another agency, for example, a criminal case would be referred to a law enforcement agency
- referred to the BCSC's Investigation Branch
- referred to BCSC's Capital Markets Regulation or Corporate Finance Divisions if compliance issues are involved

THOSE CASES THAT ARE INVESTIGATED BY THE BCSC ENFORCEMENT DIVISION ARE:

- resolved through staff action
- referred to Litigation and pursued through a hearing overseen by a panel of BCSC commissioners
- resolved through a negotiated settlement with the BCSC Executive Director
- closed without action, for example, if it is not in the public interest to pursue

The following cases were handled by the BCSC between April 1, 2002 and June 6, 2003:

Alyn Christopher and Catharine Wright

A director of an Alberta-based company registered in B.C. and his spouse settled with the BCSC after it was revealed that they earned about $108,000 from trading shares of the company based on insider information. As part of the settlement, Alwyn Christopher Dales Wright – a director of Velvet Exploration Ltd., a Toronto Stock Exchange-listed company – was banned from the securities market for four years subject to conditions. He was also barred from acting as a director or officer of any issuer for four years and he must pay the Commission $34,000. ■ Catharine Bruce Wright, Christopher Wright's spouse, was also banned from the securities market for four years subject to conditions and had to pay the Commission $24,000. ■ The pair agreed to turn over $107,937.50, a sum that represented the profits of the trading on inside information, to the Commission. ■ The couple admitted that from April 20, 2001 to June 14, 2001, Christopher Wright directed his wife to buy shares of Velvet based on information that Velvet was in negotiations to be taken over by El Paso Corp. He learned of this yet-to-be publicly disclosed information through his position as an insider of Velvet. ■ El Paso's acquisition of Velvet's shares was not announced until June 14, 2001 in a news release after Velvet's board of directors had approved the deal. *On June 14, following the announcement, Catharine Wright sold the Velvet shares at a profit.*

Anderson and Montaldi

The Commission banned two Burns Lake company directors who defrauded BC investors from the securities market for 12 years and ordered each to pay $200,000 penalties. ■ After a hearing in January 2003, the Commission ruled that Carl Glenn Anderson and Douglas Victor Montaldi defrauded investors when they failed to disclose the true state of their company's affairs and wrongly used new investors' funds for purposes outside of the company's business plan, including investments in enterprises and assets the pair owned. ■ Anderson and Montaldi were the directors and sole shareholders of a company that made loans to individuals and small businesses primarily in the Burns Lake area. The company raised the capital necessary for its lending activities by selling promissory notes to investors. ■ The Commission ruled that the pair made misrepresentations to investors when they did not tell new investors that their money might be used to pay interest and capital due to existing investors. ■ The pair also acted contrary to the public interest by failing to keep adequate records to allow the company to keep track of payments due to it by borrowers, and by failing to adequately supervise the collection of loans. These failures, along with others, meant that they were unable to monitor the performance of the business and its profitability, a major contributor to the investors' losses. *Anderson and Montaldi have filed an appeal of the Commission's decision with the Court of Appeal for British Columbia.*

James Swanney

After a hearing in May 2002, the Commission found that James Swanney perpetrated a fraud by allowing a company of which he was a director to make misrepresentations in soliciting more than $1.3 million from BC investors for a

proposed private hospital. ■ The one-time Abbotsford medical doctor was a director of Specialized Surgical Services Inc., a company that the Commission found made misrepresentations in two offering memorandums for the proposed surgical hospital in suburban Coquitlam. ■ The Commission found that Swanney and another company director, David Steinart, had breached their duties as directors when they permitted the company to make the misrepresentations. ■ The Commission found that Swanney perpetrated a fraud on Rosalind Collins, one of the investors in the company. He was a key participant in the transactions that caused Collins to pay $50,000 for shares that were worth only $7,500 at the time. The panel said Swanney "perpetrated a fraud, one of the most serious contraventions of the Act. Swanney harmed investors, Collins in particular, and seriously impaired the integrity of our capital markets and the public interest." ■ The Commission ordered Swanney to pay $35,000, banned him from the capital markets for 15 years, and ordered him to pay hearing costs. Steinart has been banned from the markets for three years. *A cease-trade order has been issued against Specialized Surgical until it has filed and obtained a receipt for a prospectus.*

American Gold Mining Corp. and Ronald Markham

In May 2003, the Commission permanently cease-traded a Nevada-based private mineral exploration company for illegally distributing securities to BC residents. ■ American Gold Mining Corp. records showed that it has 193 shareholders – 35 of them from BC. The company did not file a prospectus nor had it obtained registration to distribute its shares in B.C. ■ Ronald V. Markham, of Reno, Nevada, is American Gold's founder and president. In 1997, the Commission imposed a life-time ban from the BC capital markets on Markham, and any company that he controlled, after it was determined that he had perpetrated a fraud on Mindoro Corp. and BC residents who had invested in the company. ■ In the February 1997 decision, the Commission stated that Markham was "the ultimate con man" whose "conduct is highly prejudicial to the public interest and warrants the severest sanction." ■ As part of the 1997 decision, the Commission ordered Markham to pay a $100,000 administrative penalty, the maximum amount that could be ordered against an individual at that time. *The Commission noted that American Gold's corporate profile section of its public website, while providing an extensive description of Markham's history in the last 34 years in the mining industry in Canada and U.S., makes no mention of the Commission enforcement proceedings or the regulatory orders made against Markham.*

Michael Conn Enns

In April 2003 the BCSC, under a settlement, banned a Kelowna-based day-trader from the markets for five years for acting as an unregistered portfolio manager. Michael Conn Enns was prohibited from trading, being a director or officer of a company and engaging in investor relations activities. ■ Enns admitted to day trading for the 16 BC investors who gave him $650,000. Enns began day trading about July 2001 after completing a short course on day trading. By October 2002, he had entered into written agreements with the investors to share in the net profits and losses from his day trading. *He lost $550,000 of the investors' money and $170,000 of his own money.*

Raymond Michael Roger Sasseville

In April 2003, the BCSC banned a company president from the capital markets for at least three years and ordered him to pay $10,000 after he admitted to illegally raising over $750,000 from BC investors. ■ In a settlement with the BCSC, Raymond Michael Roger Sasseville, the president, controlling shareholder and a director of A.W. Auto Watch Group Inc., admitted that between Feb. 24, 1998 and Dec. 21, 2001 he caused Auto Watch to distribute approximately 2.9 million common shares to 75 investors. ■ Auto Watch did not file a prospectus, and was not registered, under the *Securities Act* and was unable to rely upon any statutory exemptions from these requirements, in distributing its securities to the investors. *The Commission prohibited Sasseville from being a director or officer of a company and from engaging in investor relations activities for three years.*

Gordon Tremain

The BCSC settled with an Aldergrove company chief executive who issued misleading news releases. Under the agreement, Gordon Tremain is prohibited from serving as a director or officer of a public company for at least three years. He is restricted in his trading for three years and he has paid the Commission $30,000. ■ Tremain was the chair of the board of directors and chief executive officer of Technovision Systems Inc., an Aldergrove-based company listed on the TSX Venture Exchange. Until his resignation on Mar. 28, 2002, Tremain had been in charge of the overall development of Technovision since its incorporation in 1988. *Tremain acknowledged that he issued incorrect and misleading news releases that announced option agreements had been exercised when only letters of intent had been signed.*

Canadian Global Investments

After hearings in October 2002 and this spring, the BCSC imposed sanctions against Lindy Arnot, George Price, Donald Brian Gordon-Carmichael, Leonard William Friesen and Robert Pierre Lamblin for their involvement in Canadian Global Investments Corp. and related companies. Danny Francis Bilinski was a principal and the directing mind of the Canadian Global Financial group of companies, which included Canadian Global Investments, a Langley-based mutual fund dealer. He died late last year. ■ The BCSC banned all of them from the capital markets for varying periods; Lamblin for 15 years. Almost 200 BC clients of the mutual fund dealer invested $20 million in high-risk securities that included investments in a bowling alley development and an ostrich farm operation. Many of the clients were risk-averse investors and lost most of the money they invested. Bilinski and Lamblin, sold more than 80% of the high-risk securities. The Commission found that their conduct violated the "fair dealing" rule and was particularly abusive because the securities sold were in companies in which they held an interest and participated in management. *The dealer and its principals failed to establish and apply proper compliance and supervision procedures. They also failed to comply with conflict of interest rules in selling the high-risk securities.*

Alain Germain Chevalier

Unsuitability was also the major issue when the BCSC banned a 17-year veteran in the securities industry from the capital markets for five years and required him to pay $15,000. ■ Alain Germain Chevalier was a registered representative with Moneywatch Consultants Ltd. when he recommended or sold "risky, illiquid and speculative" securities to 18 of his BC clients. Chevalier did so even though the securities did not meet his clients' investment needs, objectives or risk tolerance. Further, he recommended borrowing as a strategy that further increased the risks for his clients, and he did not ensure that they understood the risk and true nature of their investments. ■ In the same matter, in May 2003, the BCSC banned Graham Martin Hope for five years from management roles with dealers for failing to properly supervise Chevalier and required him to pay the Commission $10,000. Hope was an officer, director and trading partner of Moneywatch Consultants. *He is prohibited from being a compliance officer, branch manager, trading partner, director or officer of any issuer that is a registrant and is also banned from being a director or officer of any issuer that provides management, consulting or administrative services to registrants.*

Jose Alberto Monterossa

In a settlement in June 2002, a Vancouver mutual fund salesman was banned from the capital markets for 10 years after he admitted that he borrowed money from his clients. ■ Jose Alberto Monterossa was registered to sell mutual funds when he borrowed about $73,000 from 25 clients. In doing so, Monterossa placed himself in a conflict of interest position and breached a requirement to deal fairly honestly and in good faith with his clients. *Monterossa agreed to repay his clients the remainder of the funds that he borrowed from them.*

Khem Singh Gill

In May 2003, Khem Singh Gill was banned from the capital markets for 20 years. ■ In a settlement with the BCSC, Gill admitted that from February to September 2000, he solicited and obtained about $61,000 from BC investors for the purported purpose of buying for them shares of 3Com Corp. and MVP.com. He did not own or have any right to sell these shares. ■ In the case of MVP.com, Gill falsely represented to investors that he was a personal friend of a sports celebrity involved with the U.S.-based private company. He falsely represented that MVP.com was about to go public and that he had acquired the MVP.com shares from the sports celebrity. ■ Previously, in relation to his activity in selling the shares, Gill pleaded guilty and was convicted in the Provincial Court for committing eight counts of fraud, three counts of making forged documents, and one count of using a letter prepared on the letterhead of a law firm and purportedly signed by a lawyer while knowing it was a forgery. *He was sentenced to nine months imprisonment followed by 15 months of parole. He was also ordered to make restitution to the investors he had defrauded.*

IDF

In June 2003, the BCSC reached a settlement with the two principals behind the issuance of more than $13 million in securities for Securities Act breaches that include not resolving conflicts of interest and selling unsuitable investments to clients, including interests in a cattle ranch in northern B.C. ■ Under the settlement, Mark Cramer and his son, Michael Cramer, agreed to each pay the BCSC $37,500. They also were barred from trading securities for 12 years, except for their personal accounts. Should they sell securities they must turn over the proceeds to the BCSC, up to $250,000. They are also severely limited in engaging in investor relations activities and acting as an officer or director of a business. ■ The Cramers were the directors and registered representatives at the securities dealer IDF Financial Services Incorporated in Prince George, B.C. They admitted selling clients securities when their personal interests conflicted with their duties to clients. These conflicts arose because they were the "directing minds" behind issuers whose securities they were selling to clients. ■ Further, they admitted that they participated in illegal distributions of these securities and that these securities were unsuitable for clients, given the clients' risk tolerance and investment goals. ■ The Cramers were among 10 individuals who worked at IDF named in a notice of hearing issued in 2001. *Seven IDF brokers settled in August 2001, made payments to the BCSC and agreed to strict supervision if they seek registration to sell securities in B.C. again. An eighth broker settled in May 2003.*

Robert Douglas McLean

In May 2003, the Commission banned Robert Douglas McLean, a former company director, from the securities markets for five years and ordered him to pay an administrative penalty of $10,000 for failing to file insider reports over a 26-month period. ■ Between September 1996 and October 1998, McLean failed to file reports for 333 trades in the shares of Markatech Industries Corp., a company listed on the former Vancouver Stock Exchange (VSE). McLean became a director, and therefore an insider, of the company in November 1986 and remained an insider until he resigned as a director and officer in December 1999. ■ In a Commission hearing, McLean admitted that he bought approximately 1.4 million shares and sold just under 1.8 million shares of Markatech during the 26-month period. McLean's unreported trades represented more than 18% of all the trading volume of Markatech's shares on the VSE during that time period. ■ McLean traded the shares through his own account and accounts under the names of his mother and his former fiancée. Evidence showed that McLean had trading authority for those accounts and gave all the trading instructions during the period in question. *Under the decision, McLean is barred from being a director or officer of a reporting issuer for at least five years. He must also pay the late filing fees for the insider reports he failed to file along with costs related to the Commission hearing.*

Brian Paul Kuhn

A financial adviser who failed to exercise due diligence on his clients' behalf before selling them shares in a company touting tire cleaner was banned from the capital markets for seven years. ■ Kuhn also agreed to pay the BCSC $15,000 and to return $14,000 to four of his investors. ■ Kuhn admitted that between February and July 1999 he sold 31 clients about $175,000 worth of shares in a company doing business as North American Marketing Ltd. and North American Enterprises Ltd. The investment firm that employed Kuhn did not authorize Kuhn's trading in securities of North American. ■ Kuhn also agreed he did not exercise due diligence by checking the accuracy and truth of the information North American gave him to distribute to his clients. He also agreed he did not put $14,000 investors gave him into a trust account as required by securities law. ■ In its promotional documents, North American said it had an exclusive agreement with Tire-Glo Ltd. to manufacture and market the tire cleaner and projected it would sell two million bottles of Tire Glo or Tire Tux in 2001. North American offered 750,000 company shares to investors at 35 cents a share. The company also said it would go public by Aug. 31, 1999, either on the former Alberta Stock Exchange or the OTC Bulletin Board. *The company's representations were false.*

As of March 31, 2003, 23 major investigations were underway, aged as follows:

INVESTIGATIONS	MONTHS
7 investigations	less than 2 months
2 investigations	2 – 4 months
4 investigations	4 – 6 months
8 investigations	6 – 12 months
2 investigations	12 – 24 months
0 investigations	over 24 months

As of March 31, 2003, Litigation's caseload amounted to:

47	enforcement actions
21	appeals
4	hearings and reviews
13	consultations on FOI requests
44	"advice only" matters for other divisions
6	charge approval matters
3	variation orders

PRESENTLY, COMMISSION STAFF HAVE OUTSTANDING: FOUR NOTICES OF HEARING AND REVIEWS, 21 APPEALS, 13 CONSULTATIONS ON FREEDOM OF INFORMATION REQUESTS, SIX CHARGE APPROVAL MATTERS AND THREE VARIATION ORDERS

Enforcement

The Enforcement Division's mandate is to protect the investing public by investigating complaints and enforcing the *Securities Act.* Three groups within the division pursue this goal. The Case Assessment Team is responsible for receiving and assessing complaints about alleged misconduct and abuse in the capital markets. The Investigation Branch investigates alleged violations of the Act. These are referred to Crown Counsel for possible prosecution in the BC Court system, or to the BCSC Executive Director for administrative proceedings before the Commission. The Litigation Branch conducts administrative proceedings before the Commission, represents staff in those proceedings and represents the Commission before the courts.

Capital Markets Regulation

Capital Markets Regulation is responsible, through its Registration and Market Regulation Branch, for reviewing and processing applications for registration of all dealers, underwriters, advisers, and salespersons in BC that are not members of the Investment Dealers Association (IDA). The division's Examination Branch monitors the conduct and solvency of these registrants. The Commission has recognized the IDA, the Mutual Fund Dealers Association (MFDA), and Market Regulation Services Inc. (RS) as self-regulatory organizations. Their regulatory functions are monitored and audited by Capital Markets Regulation. The division's Compliance Branch works with registrants and other market participants to help them understand and meet their compliance obligations. Administrative sanctions are recommended in appropriate circumstances to address failures to meet compliance obligations.

Legal and Market Initiatives

Legal and Market Initiatives advises the Commission and other divisions on regulatory policy initiatives. It develops legislation, rules and policies to improve the efficiency and effectiveness of regulation. The division reviews and decides on discretionary relief for issuers from regulations, with a view to facilitating business objectives while ensuring investor protections are not compromised. It also responds to legal and regulatory issues arising out of takeover bids. Legal and Market Initiatives participates in CSA regulatory initiatives to promote mutual reliance and harmonization, and pursues educational programs to ensure issuers are aware of their responsibilities and obligations under the *Securities Act.*

Corporate Planning and Management Services

Corporate Planning and Management Services is responsible for external stakeholder information services and internal corporate services for the Commission. The division operates four departments: Information Systems, Finance and Administration, Human Resources and Knowledge Management Services. It also coordinates the Commission's strategic planning functions. The division

Sasha Angus, Director, Enforcement *upper right*

Martin Eady, Director, Corporate Planning and Management Services

l. to r.
Brenda Leong, Director, Legal and Market Initiatives

Michael Bernard, Manager, Communications and Education

Lang Evans, Director, Capital Markets Regulation

Angela Huxham, Director, Corporate Finance

provides information to the public through a staff team that maintains and promotes the Commission's website and resolves inquiries from the public. It also provides library reference and research services to Commission staff.

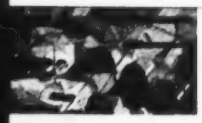
Corporate Finance

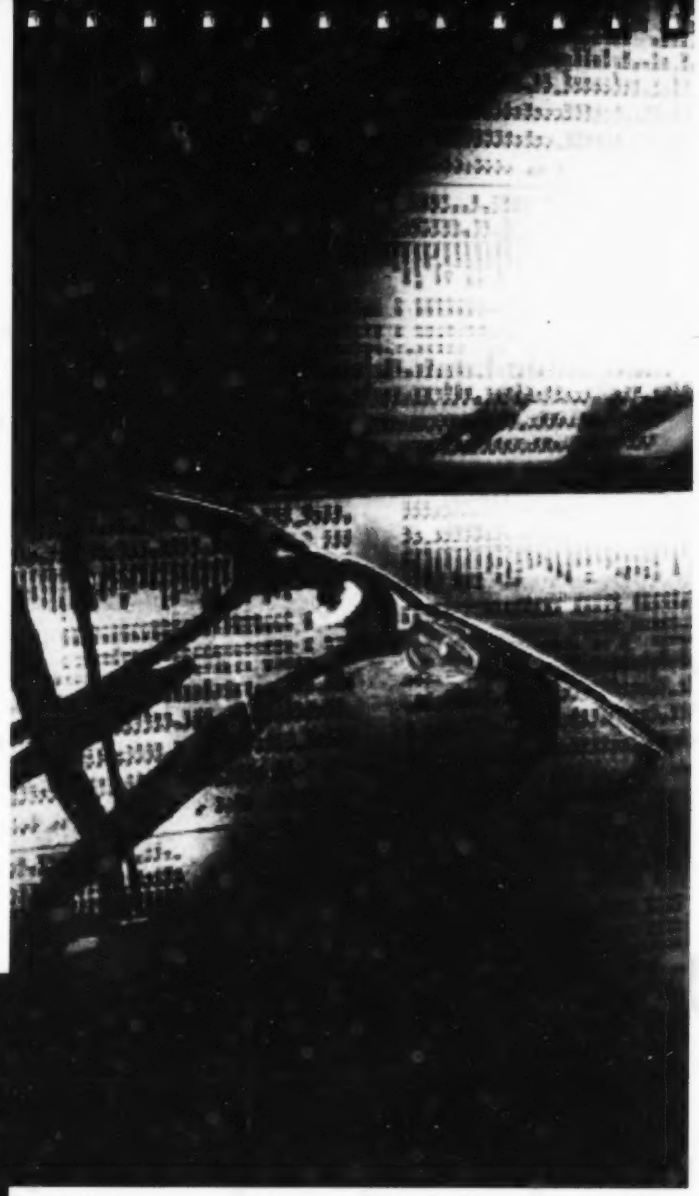
The Corporate Finance Division ensures investors have access to the timely, accurate and complete information they need from public companies to make investment decisions. It meets this mandate through many activities. Finance and Corporate Analysis reviews prospectuses and other offering documents. Financial Reporting reviews financial statements, quarterly reports and material change filings of reporting issuers, and Insider Reporting monitors the accuracy of insider reports filed by these issuers. Continuous Disclosure Review monitors public company disclosure and educates directors and officers of public companies on their disclosure obligations. The division conducts ongoing programs to educate reporting issuers and their advisers, and takes compliance and enforcement action in serious cases of misleading disclosure and corporate abuses.

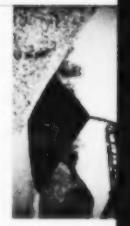
Communications and Education

The Communications and Education Department supports the Commission in educating investors to protect themselves and helping market participants understand their responsibilities. The department partners with financial institutions, non-profit groups and other organizations to inform investors about how they can avoid becoming victims of fraud and inappropriate investments. Working with other divisions, it develops and supports BCSC industry education initiatives, which include a diverse range of seminars, conferences and publications. Department staff work with the news media to disseminate enforcement information to the public as a deterrence tool, and provide information to industry through the trade press. The department also works with the Commission's counterparts across the country to meet investor and industry educational goals.

financial report







Financial Report

FINANCIAL OVERVIEW

	2003	2002	2001
Revenues			
Distributions	$ 8,589,382	$12,697,382	$15,970,237
Financial filings	1,757,248	3,596,199	3,881,271
Registrations	6,163,493	7,309,967	6,658,911
Other	643,576	723,901	1,417,822
Sub-total fee revenues	17,153,699	24,327,449	27,928,241
Enforcement revenues	409,668	1,328,627	2,026,545
Investment income	923,379	1,407,039	1,873,692
	18,486,746	27,063,115	31,828,478
Expenses			
Salaries and benefits	19,465,217	18,869,473	16,366,256
Other	8,406,514	7,808,621	7,392,210
	27,871,731	26,678,094	23,758,466
Surplus (deficit)	$ (9,384,985)	$ 385,021	$ 8,070,012

Our financial results for the year ended March 31, 2003 were significantly affected by temporary fee reductions we introduced in 2002, the decline in market activity during the year, and the full-year impact of expenses related to our Deregulation Project team, which was created October 1, 2001.

Temporary Fee Reduction

Sustained growth in the stock market resulted in steadily increasing filings activity since our incorporation in 1995, which, in turn, resulted in large annual surpluses. We introduced temporary fee reductions on January 7, 2002 to return a portion of our accumulated surplus to industry. These fee reductions, which ended January 6, 2003, caused fee revenues to drop by approximately $6.7 million (2002 – $1.1 million) in fiscal 2003, and will affect revenues by a further $3.3 million in fiscal 2004.

Decline in Market Activity

Most of the remaining decline in fee revenues related to lower fees, which were $1.7 million (40%) below last year, related to mutual fund sales.

Deregulation Project

On October 1, 2001, we established a project team to re-write the *Securities Act* by December 31, 2004. The team's objectives are to improve investor protection while minimizing the industry's regulatory burden. Project expenses, which relate primarily to the team's salary and benefit costs, totaled $1.7 million in fiscal 2003 (2002 – $0.7 million), and are expected to total $1.9 million in fiscal 2004.

OPERATIONS AND FINANCIAL CONDITION *for the year ended March 31, 2003*

REVENUES

Our revenues are comprised of:

Distribution Fees – paid by securities issuers when they file disclosure documents

Registration Fees – paid by individuals and firms to register with us to sell or advise on securities

Financial Filing Fees – paid by public companies when they file annual and quarterly financial statements

Other Fees – paid by market participants, primarily to request exemptions from *Securities Act* requirements

Enforcement Revenues – amounts collected from administrative penalties and settlements for breaches of the *Securities Act*, and enforcement cost recoveries

Investment Income – investment portfolio income

Fee Revenue by Source (percentage)

	2003	2002
Distributions	49	53
Registrations	30	28
Financial Filings	18	16
Other	3	3

Fee Revenues

Fees constitute 93% of our total revenue (2002 – 90%). The majority of our fee revenues relate to capital raising activities in British Columbia.

We are most dependent on distribution fees from the sale of mutual funds (35% of total revenue, 2002 – 41%). Revenues vary depending on the number and size of offerings completed each year and are lower during weak markets.

Distributions

Fees from distribution filings fell 32% to $8.9 million (2002 – $12.7 million). Most of this decline was because we temporarily reduced prospectus filing fees to $400 from $2,500 for non-mutual fund filers, and to $900 from $1,500 for mutual fund filers. We also temporarily reduced the fee on non-prospectus information filings to 0.01% from 0.03% of the proceeds raised in BC. These fee decreases reduced 2003 revenues by $3.1 million (2002 – $0.7 million). The remaining decline relates to lower fees related primarily to mutual fund proceeds raised in BC.

Financial Filings

Financial filing fees fell 51% to $1.8 million (2002 - $3.6 million). We temporarily reduced the on-time financial statement filing fee to $75 from $600, reducing 2003 revenues by $2.6 million (2002 – $0.4 million). This decrease was partially offset by a 12% increase in financial statement filings.

Registrations

Registration fees fell 16% to $6.2 million (2002 – $7.3 million). The reduction is because we temporarily reduced the individual registration fee for calendar 2003 registrations to $75 from $250, reducing 2003 revenues by $1.0 million. Because we recognize registration revenues over the term of the related registration period, temporary fee reductions will lower fiscal 2004 registration revenues by $3.3 million.

Enforcement Revenues

Enforcement revenues are not considered part of our core operating revenues because they are unpredictable, as they depend on the nature and timing of enforcement actions completed during the year, and on our ability to collect assessed amounts. Collecting enforcement revenue is difficult because the persons against whom we assess penalties and costs often have limited assets, poor credit or have left British Columbia.

Investment Income

Investment income fell to $0.9 million (2002 – $1.4 million) because our cash balance declined from the previous year. Cash has declined because of our operating deficit.

Our portfolio generates modest returns because we invest conservatively.

OPERATIONS AND FINANCIAL CONDITION *continued*

EXPENSES

We control our expenses by conducting comparative salary surveys, reviewing our costs compared to budget on a monthly basis, and requiring senior management approval of all expenses greater than $5,000.

Salaries and benefits account for 70% of our operating expenses (2002 – 71%). We averaged 206 full-time staff during the year (2002 – 208). We compete for professional staff with law firms, accounting firms, the securities industry and other regulators, so our salaries must be competitive with those groups. Our compensation package includes a performance-based incentive program available to all staff.

Staff effort is focused in the following areas:

Salaries expensed by activity (percentage)

	2003	2002
Enforcing rules	43	44
Monitoring issuer compliance	20	21
Rule making	22	19
Monitoring registrant compliance	12	13
Industry and investor education	3	3

Expenses increased 4% to $27.9 million (2002 – $26.7 million) due primarily to the following:

Salary and Benefits Expense

There were no increases to salary ranges during the year. However, salary and benefit costs increased 3% to $19.5 million (2002 – $18.9 million) because lower severance costs were offset by average merit increases of 3%, benefit cost increases, and higher incentive payments.

Professional Services

The most significant components of professional service expenses are commissions related to outsourced registration functions, our contributions to regulatory projects led by other jurisdictions, and contracted legislative drafting, document management, transcription, and legal services.

Information Technology

We spend significant amounts on information technology annually to continually improve market participants' access to our services, the information we maintain, and to improve the speed and quality of our regulatory duties. Information technology costs increased to $1.1 million (2002 - $0.3 million), primarily because this year we made a one-time $0.7 million contribution towards completing the development of a national registration system for securities firms and their salespeople.

Administration

Administration expenses are comprised primarily of information service subscription, office supply, meeting hosting, record storage, copier lease, facility and equipment maintenance, criminal record search, postage, and recruitment advertising costs. Administration costs decreased 16% to $0.8 million (2002 – $0.9 million) because we lowered office supply costs through vendor and product changes, and our recruitment advertising costs were lower.

Business Travel

Most of our travel expenses relate to coordinating with other CSA jurisdictions on national projects and setting rules.

External Communication

Our most significant communication activities are investor education seminars, our annual Capital Ideas industry conference, a periodic registrant newsletter, and our annual report.

RISKS AND OPPORTUNITIES

Proposed Changes to Securities Legislation

We have proposed significant changes to how securities are regulated in British Columbia, to improve investor protection while minimizing the industry's regulatory burden. We are working to have these proposals passed by the Legislature during the spring of 2004. If they are passed, what we do and how we fund our operations will change. Changes are likely to include a modified fee structure and restructuring of the organization to meet these new challenges.

Fee Revenue

In addition to our planned temporary fee reductions, the depressed securities markets have resulted in lower than expected fee revenues. At present market levels, we have cash reserves sufficient to fund our operations for three more years. In light of the effects that our new regulatory model initiative will have on our existing revenue base, and to ensure more stable fee revenue streams, we will review and recommend changes to our fee structure by September 30, 2003.

National Registration Database (NRD)

CDS INC (CDS) developed the NRD system on behalf of the provincial securities commissions (except Quebec) and the Investment Dealers Association of Canada (the Regulators). The system, created to reduce market participants' administration costs and the time it takes to register, has been operating to expectations since its launch on March 31, 2003. Under the terms of our development agreement, the Regulators are contingently liable to pay CDS $4.25 million if the system fails and cannot be fixed before CDS collects NRD user fees totaling this amount. Our portion of this contingent liability is $682,826. Based on current operations, we expect this contingency to be eliminated during fiscal 2004.

System for Electronic Disclosure by Insiders (SEDI)

CDS developed and launched the SEDI system for the CSA on January 21, 2002. This system was designed to enable more efficient and convenient filing and retrieval of insider reports. SEDI operations were suspended on February 1, 2002 because of technical problems that slowed system response times to unacceptable levels. The system was re-launched on May 5, 2003 and, beginning June 9, 2003, most insiders will begin filing their reports using the system.

Reliance on CDS INC (CDS)

Under various agreements with the CSA, CDS operates the System for Electronic Document Analysis and Retrieval (SEDAR), NRD, and SEDI electronic filing and payment systems. Approximately 85% (2002 – 60%) of our fee revenue is collected in this manner. The SEDAR operating agreement expires in fiscal 2004 and an NRD operating agreement has not been finalized. Should CDS become unable or unwilling to continue to operate any of these systems, the CSA would have to contract with another party to undertake these tasks.

CHANGES IN FINANCIAL POSITION

Liquidity and Capital Resources

Excluding amounts reserved for education, investments have dropped to $15.4 million this year due primarily to our temporary fee reduction initiative, lower than expected fee revenues, and because of a change in when we receive registration fees from salespeople. We anticipate unrestricted investments will decline to approximately $12 million by March 31, 2004.

Assets

Net assets decreased to $20.8 million from $30.2 million in the prior year. The decrease reflects the impact of a $9.4 million operating deficit and a $0.3 million increase in the education reserve.

Accounts and advances receivable increased to $0.6 million from $0.3 million in 2002 because we advanced $0.3 million to CDS under an agreement to complete development of NRD. We expect CDS will repay the advance during fiscal 2004.

Cash and short term investments declined to $3.4 million (2002 – $14.8 million), reflecting:

- cash outflows from operations of $10.3 million (2002 – $1.0 million cash inflows)
- a $0.3 million allocation to the education reserve (2002 – $0.7 million)
- payments, including working capital changes, for capital assets totaling $0.7 million (2002 – $1.7 million).

During the year we purchased $0.8 million (2002 – $1.5 million) of capital assets, relating primarily to information technology system development, and hardware and software upgrades.

Liabilities

Deferred revenue decreased to $1.9 million (2002 – $3.7 million) because we reduced the 2003 registration fees for approximately 23,200 salespeople.

Accrued salaries decreased to $2.2 million (2002 – $2.6 million) primarily due to a reduction in severance accruals.

DISCLOSURE REQUIRED BY THE *BUDGET TRANSPARENCY AND ACCOUNTABILITY ACT*

Outlook for Fiscal 2004

We expect 2004 revenue will increase from 2003 primarily because of the lessened impact ($3.3 million vs. $6.7 million in 2003) of our temporary fee reductions. However, we expect this increase to be partially offset by further declines in revenues from mutual fund distributions.

We expect 2004 expenses to decrease 2% from 2003 because inflationary increases will be offset by there being no reoccurrence of our one-time $0.7 million NRD development contribution during 2003.

OUTLOOK FOR 2003/2004	2004 FORECAST	2003 ACTUAL	VARIANCE
Revenue	$ 21,202,387	$ 18,486,746	$ 2,715,641
Expense	27,320,414	27,871,731	551,317
Deficit	(6,118,027)	(9,384,985)	3,266,958
Capital	818,200	781,582	(36,618)

Actual Results Compared to Budget

2003 Revenue is under budget primarily because lower than expected mutual fund sales reduced fee revenues by $1.7 million. Securities exemption applications fell, rather than rebounding as expected, which lowered fee revenue by another $0.2 million.

Expenses are under budget primarily because we compensated for a portion of our revenue shortfall by reducing discretionary spending and delaying or deferring information technology capital projects.

2003 ACTUAL vs. BUDGET	ACTUAL	BUDGET	VARIANCE
Revenue	$ 18,486,746	$ 20,489,000	$ (2,002,254)
Expense	27,871,730	28,444,906	573,176
Deficit	(9,384,984)	(7,955,906)	(1,429,078)
Capital	781,582	1,338,074	556,492

2002 Revenue in 2002 was under budget primarily because we had not planned our January 2002 fee reductions when we set the 2002 budget. Expenses in 2002 were also under budget primarily because we deferred $500,000 of education reserve expenditures while we finalize our strategic plan for the education fund.

2002 capital additions were over budget because higher office construction costs were only partially offset by lower information technology equipment replacements.

2002 ACTUAL vs. BUDGET	ACTUAL	BUDGET	VARIANCE
Revenue	$ 27,063,115	$ 27,531,541	$ (468,426)
Expense	26,678,094	27,165,778	487,684
Surplus (Deficit)	385,021	365,763	19,258
Capital	1,503,891	1,434,313	(69,578)

2001 Revenue in 2001 was over budget because of strong distribution fee growth and higher one-time enforcement receipts, and the resulting higher investment income.

Expenses in 2001 were under budget because staff vacancies, lower use of external legal and consulting services and cheaper telecommunication rates were only partially offset by higher information technology costs and unplanned education spending.

Capital purchases were under budget in 2001 because we purchased some equipment for an information technology project in the prior year.

2001 ACTUAL vs. BUDGET	ACTUAL	BUDGET	VARIANCE
Revenue	$ 31,828,478	$ 25,234,004	$ 6,594,474
Expense	23,758,466	24,332,399	573,933
Surplus	8,070,012	901,605	7,168,407
Capital	6,444,208	6,856,000	411,792

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of the British Columbia Securities Commission is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

Management has prepared the financial statements according to accounting principles that are generally accepted in Canada.

Management develops and maintains systems of control that give the Commission reasonable assurance that management has:

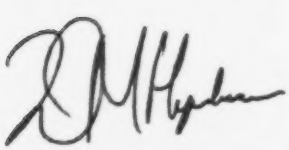
- operated within its authorized limits,
- safeguarded assets, and
- kept complete and accurate financial records.

The commissioners are responsible for ensuring that management fulfills its financial reporting and control responsibilities, and have appointed an audit committee to oversee the financial reporting process. The majority of the committee members are part-time commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly with management, the internal auditors and the external auditors to review the:

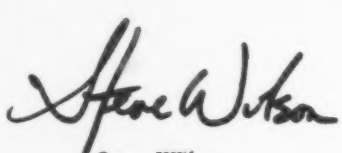
- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

The audit committee has reviewed these financial statements and has recommended the commissioners approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.



Douglas M. Hyndman
Chair and Chief Executive Officer



Steve Wilson
Executive Director

REPORT TO THE AUDITOR GENERAL OF BRITISH COLUMBIA

To the Commissioners of the British Columbia Securities Commission, and
To the Minister of Competition, Science and Enterprise, Province of British Columbia:

I have audited the balance sheet of the British Columbia Securities Commission as at March 31, 2003 and the statements of operations, of surpluses, and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2003 and the results of its operations, its surpluses, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

Wayne Strelioff, CA
Auditor General

Victoria, British Columbia
April 17, 2003

BALANCE SHEET | *Financial Statements*
For the Year Ended March 31, 2003
British Columbia Securities Commission

As at March 31	2003	2002
ASSETS		
Current assets:		
Cash and short term investments *(note 4)*	$ 3,431,498	$ 14,804,604
Accounts and advances receivable *(note 5)*	587,730	268,361
Prepaid expenses and deposits	188,028	193,846
	4,207,256	15,266,811
Investments held for designated purposes *(note 4)*	16,214,142	15,918,642
Capital assets *(note 6)*	6,537,619	7,255,329
	$ 26,959,017	$ 38,440,782
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 933,545	$ 777,316
Accrued salaries	2,225,259	2,590,601
Deferred revenue	1,899,610	3,738,441
Employee leave liability *(note 7)*	906,375	932,941
	5,964,789	8,039,299
Deferred rent	193,010	215,280
Deferred revenue	—	—
	193,010	215,280
SURPLUSES		
Contributed *(note 1)*	1,415,018	1,415,018
General	3,172,058	12,852,543
Fee stabilization reserve *(note 8a)*	12,000,000	12,000,000
Education reserve *(note 8b)*	4,214,142	3,918,642
	20,801,218	30,186,203
	$ 26,959,017	$ 38,440,782

Note 13 describes our commitments and contingent liabilities.

The accompanying notes are part of the financial statements.

Approved by the Commission | Douglas M. Hyndman, Chair | John K. Graf, Member

STATEMENT OF OPERATIONS

Financial Statements

For the Year Ended March 31, 2003

British Columbia Securities Commission

Year Ended March 31	2003	2002
REVENUES		
Fees		
Prospectus and other distributions	$ 8,589,382	$ 12,697,382
Financial filings	1,757,248	3,596,199
Registration	6,163,493	7,309,967
Exemptions and orders	630,203	705,627
Other	13,373	18,274
Administrative penalties and designated settlements *(note 8)*	347,636	828,064
Enforcement cost recoveries *(note 9)*	62,032	500,563
Investment income	923,379	1,407,039
	18,486,746	27,063,115
EXPENSES		
Salaries and benefits *(notes 11 and 12)*	19,465,217	18,869,473
Professional services	1,952,591	2,010,479
Rent	1,650,402	1,663,408
Depreciation	1,499,292	1,448,101
Information technology	1,099,057	350,353
Administration	783,859	929,017
Business travel	439,358	382,483
External communications	347,665	300,836
Staff training	296,556	265,812
Education reserve *(note 8b)*	189,403	304,000
Telecommunications	148,331	154,132
	27,871,731	26,678,094
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	$ (9,384,985)	$ 385,021

The accompanying notes are part of the financial statements.

STATEMENT OF SURPLUSES

Financial Statements

For the Year Ended March 31, 2003

British Columbia Securities Commission

	CONTRIBUTED	GENERAL	FEE STABILIZATION RESERVE (NOTE 8a)	EDUCATION RESERVE (NOTE 8b)	TOTAL
Balance, March 31, 2001	$ 1,415,018	$ 13,144,677	$ 12,000,000	$ 3,241,487	$ 29,801,182
Excess of revenues over expenses of the year	—	385,021	—	—	385,021
Appropriation during the year	—	(677,155)	—	677,155	—
Balance, March 31, 2002	$1,415,018	$ 12,852,543	$ 12,000,000	$ 3,918,642	$ 30,186,203
Deficiency of revenues over expenses of the year	—	(9,384,985)	—	—	(9,384,985)
Appropriation during the year	—	(295,500)	—	295,500	—
Balance, March 31, 2003	$1,415,018	$ 3,172,058	$ 12,000,000	$ 4,214,142	$ 20,801,218

The accompanying notes are part of the financial statements.

STATEMENT OF CASH FLOWS

Financial Statements

For the Year Ended March 31, 2003

British Columbia Securities Commission

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	$ 15,365,312	$ 23,119,892
Cash receipts from penalties and settlements	409,224	1,329,071
Cash paid to employees	(19,870,458)	(17,817,825)
Cash paid to suppliers and others	(7,169,303)	(7,012,356)
Investment income received	924,879	1,409,539
	(10,340,346)	1,028,321
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(737,260)	(1,651,569)
Net decrease in cash and cash equivalents	(11,077,606)	(623,248)
Cash and cash equivalents, beginning of year	30,723,246	31,346,494
Cash and cash equivalents, end of year	$ 19,645,640	$ 30,723,246
Represented by:		
Cash and short term investments	$ 3,431,498	$ 14,804,604
Investments held for designated purposes	16,214,142	15,918,642
	$ 19,645,640	$ 30,723,246

The accompanying notes are part of the financial statements.

1 NATURE OF OPERATIONS

The British Columbia Securities Commission is a Crown corporation created by the Province of British Columbia on April 1, 1995. We regulate the trading of securities and exchange contracts in BC. As a government agency, we pay only those taxes paid by the provincial government.

The BC government transferred assets and liabilities with a net value of $1,415,018 to us on April 1, 1995. This amount is our contributed surplus.

2 SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements according to accounting principles that are generally accepted in Canada. The important accounting policies used are:

a) Short term and designated investments

Under BC law, we must invest any money that we receive, but do not immediately need, in an investment pool that the British Columbia Investment Management Corporation, a BC government organization, administers. We buy units in pooled investment funds that invest primarily in:

- Canadian money market instruments maturing within 15 months, and
- Canadian bonds issued or guaranteed by the government of Canada or a provincial government and maturing within 10 years.

Any earnings from our investments are reinvested in the same fund and add to the carrying value of the units we own.

We value our short term investments and investments held for designated purposes at the lower of their carrying value or their market value. The fair value of short term investments and investments held for designated purposes is considered to be the market value. Fair value is the amount that would be agreed upon by two unrelated parties to a transaction who have full knowledge of all relevant facts and who are under no obligation to act.

b) Capital assets

We record our capital assets at cost. We depreciate them using the straight line method over their useful lives. We estimate the useful lives of our assets to be as follows:

- Information technology assets – three years
- Leasehold improvements – the length of the remaining lease term or the length of the estimated useful life of each improvement, whichever time is shorter
- Office furniture and equipment – ten years

c) Revenue

We recognize prospectus and other statutory filing fees when we receive the cash.

Registration fees are paid to us in advance. We recognize only the portion of fees that relate to the registration period falling in the fiscal year as revenue. We treat the balance as deferred revenue and recognize it as income in the next year.

We recognize administrative penalties, settlements, and recoveries of enforcement costs as revenue only when we receive payment since the collection of these amounts is uncertain *(see note 9)*.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

d) Use of estimates

Canadian generally accepted accounting principles require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements management has estimated the:

- portion of amounts receivable that we will actually receive,
- useful lives of capital assets, and
- value of the employee leave liability.

Actual results may differ from these estimates.

e) Comparative figures

Some of the amounts reported for fiscal 2002 have been reclassified to conform to this year's presentation.

3 FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalent assets, amounts receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability, approximate their fair value because of their short maturity dates.

Short term investments and investments held for designated purposes are subject to credit risk and interest rate risk. Credit risk is the risk that investment values will fluctuate because debtors cannot pay. We believe this risk is low because most of our investments are in government securities. Interest rate risk is the risk that investment values will fluctuate because of changes in market interest rates. We mitigate this risk by investing primarily in short term instruments.

4 INVESTMENTS

Investments consist of:

	2003				2002			
	UNITS	EXPECTED RETURN	CARRYING VALUE	MARKET VALUE	UNITS	EXPECTED RETURN	CARRYING VALUE	MARKET VALUE
Short term investments								
Pooled Canadian Money Market Fund ST2	0.43	3.20%	$ 1,314,456	$ 1,314,456	4.64	2.30%	$ 13,729,432	$ 13,729,432
Investments held for designated purposes								
Pooled Canadian Money Market Fund ST2	3.17	3.20%	$ 9,599,532	$ 9,599,532	3.26	2.30%	$ 9,626,829	$ 9,626,829
Short Term Bond Fund	4.07	4.00%	6,614,610	6,614,610	4.14	4.70%	6,291,813	6,291,813
		3.53%	$ 16,214,142	$ 16,214,142		3.25%	$ 15,918,642	$ 15,918,642

5 ACCOUNTS AND ADVANCES RECEIVABLE

Accounts and advances receivable consists of:

	2003	2002
CDS INC (a)	$ 313,439	$ —
CSA	182,575	138,034
Employee loans and other	72,211	58,878
Registration fees	13,505	63,949
Interest	6,000	7,500
	$ 587,730	$ 268,361

a) Advance to CDS INC

We loaned CDS INC (CDS) money to complete development of a national electronic registration system that began operating on March 31, 2003. Our agreement provides for repayment of the advance from service fees that CDS is now collecting from system users.

6 CAPITAL ASSETS

Capital assets consist of:

	2003			2002
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Leasehold improvements	$ 4,274,577	$ 868,504	$ 3,406,073	$ 3,798,275
Office furniture	1,916,202	419,713	1,496,489	1,667,224
Office equipment	649,416	246,854	402,562	446,637
Information technology assets	3,828,328	2,595,833	1,232,495	1,343,193
	$ 10,668,523	$ 4,130,904	$ 6,537,619	$ 7,255,329

7 EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

8 RESERVES

	FEE STABILIZATION	EDUCATION (B)			
	APPROPRIATION (A)	SECTION 162	APPROPRIATION	TOTAL	TOTAL
Balance, March 31, 2001	$ 12,000,000	$ 391,635	$ 2,849,852	$ 3,241,487	$ 15,241,487
Additions	—	136,575	691,489	828,064	828,064
Investment income allocation	—	18,818	134,273	153,091	153,091
Disbursements	—	—	(304,000)	(304,000)	(304,000)
Balance, March 31, 2002	$ 12,000,000	$ 547,028	$ 3,371,614	$ 3,918,642	$ 15,918,642
Additions	—	25,786	321,850	347,636	347,636
Investment income allocation	—	19,295	117,972	137,267	137,267
Disbursements	—	—	(189,403)	(189,403)	(189,403)
Balance, March 31, 2003	$ 12,000,000	$ 592,109	$ 3,622,033	$ 4,214,142	$ 16,214,142

a) Fee Stabilization Reserve

In 1999 and 2000, we appropriated portions of our general surplus to the fee stabilization reserve to ensure that temporary reductions in revenue will not immediately impair our ability to operate, or require immediate fee increases.

b) Education Reserve

We collect administrative penalties under section 162 of the *Securities Act*. We also negotiate settlement amounts that exceed the costs of our investigations. We appropriate both of these amounts from our general surplus to the education reserve. Education reserve funds may only be spent for the purpose of educating securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets. We mix education reserve funds with our other funds for investment purposes, so we allocate a portion of our investment income to the education reserve.

9 ENFORCEMENT REVENUE

Due to collection uncertainty, we have not recognized revenue from administrative penalties, settlements, and enforcement cost recoveries until we received payment. Therefore, enforcement revenue includes the collection of penalties, settlements, and recoverable costs assessed in both the current and prior periods.

During the period, administrative penalties, settlements, and enforcement cost recoveries of $577,658 (2002 – $1,145,013) were not recognized as revenue because we did not receive payment. We keep records of all penalties, settlements, and recoverable costs for collection purposes.

10 RELATED PARTY TRANSACTIONS

We are related through common ownership to all provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

11 POST-RETIREMENT EMPLOYEE BENEFITS

We, and all eligible employees, contribute to the Public Service Pension Plan, a multi-employer, defined benefit pension plan. The trustees of plan members and employers manage the plan jointly. Plan members and employers share the risks and rewards of any unfunded liability or surplus. The most recent actuarial valuation (March 31, 2002) has determined the Plan is in a surplus position. The British Columbia Pension Corporation administers the plan and pays pension and other benefits on behalf of employers. We recognize our annual contribution to the pension plan as our cost for employee future benefits.

12 DEREGULATION EXPENSES

On October 1, 2001 we started a project intended to reform securities regulation. We have assigned 12 staff, including one Commissioner, to rewrite British Columbia securities legislation and policies, by December 31, 2003. Project costs are included in operating expenses and total:

	2003	2002
Salaries and benefits	$ 1,457,350	$ 593,826
Professional services	134,538	–
Business travel	67,141	26,462
Administration	21,757	25,372
External communications	11,170	8,769
Staff training	9,435	3,705
Telecommunications	1,055	1,046
	$ 1,702,446	$ 659,180

13 COMMITMENTS AND CONTINGENT LIABILITIES

a) Office lease

We have leased office space to November 2011. Our annual rent is approximately $800,000 until November 2006, and $975,000 after that date. We also pay our share of building operating and maintenance costs.

b) Disaster Recovery Services

We have contracted disaster recovery services that include the provision of off-site work group space, to August 31, 2007. Our annual commitments for these services are:

YEAR ENDED	COMMITMENT
March 31, 2004	$ 99,479
March 31, 2005	$104,754
March 31, 2006	$110,343
March 31, 2007	$116,270

c) National Registration Database

Together with the Ontario Securities Commission, the Alberta Securities Commission, and the Investment Dealers Association of Canada, we are contingently liable to pay CDS, the developer of a national electronic registration system (NRD), $4.25 million if the system fails and cannot be fixed before CDS collects NRD user fees totalling this amount. Our portion of this contingent liability is $682,826. Based on current operations, we expect this contingency to be eliminated during fiscal 2004.

d) Mutual Fund Dealers Association of Canada

The mutual fund industry formed the Mutual Fund Dealers Association of Canada (MFDA) as a self-regulatory organization. Together with the Ontario Securities Commission and the Alberta Securities Commission, we guaranteed the MFDA's credit line with a Canadian bank. The maximum obligation of the three commissions under the guarantee is $12 million. Our portion of the guarantee is capped at 21% of the credit line outstanding, which was $2,963,000 on March 31, 2003 (2002 – $8,913,000). The MFDA has budgeted for repayment of the credit line by June 30, 2005.

special thanks to our advisers

Many people contribute their time and effort to help us serve the public interest. We would like to extend special thanks to the following individuals for their assistance and counsel.

Securities Law Advisory Committee The Securities Law Advisory Committee advises the Commission on legal and policy issues relating to securities regulation. It provides an important link between the Commission and securities lawyers for consultation on emerging or important issues. The committee has 10 members, nine of whom serve for terms of three years on a staggered basis. The tenth member is the current vice chair of the Securities Law Sub-section of the Canadian Bar Association's British Columbia Branch.

Gordon R. Chambers
Lawson Lundell

Jonathan S. Drance
Stikeman Elliott

Paul L. Goldman*
Goodmans

Nancy Glaister
Cawkell Brodie

Jed M. Hops**
Morton & Company

Tim McCafferty**
McCarthy Tétrault LLP

Ronald Murray
Farris, Vaughan, Wills & Murphy

Charlotte A. Olsen
Lang Michener

Bernard Pinsky**
Clark, Wilson

Jeffrey A. Read
Fraser Milner Casgrain LLP

J. Douglas Seppala*
McCullough O'Connor Irwin

Marion V. Shaw
Bull, Housser & Tupper

Paul Visosky*
DuMoulin Black

Catherine E. Wade**
Ogilvy Renault

Securities Policy Advisory Committee This Securities Policy Advisory Committee represents a cross-section of market participants and provides the Commission independent advice on administrative, regulatory and legislative matters relating to trading in securities and to the securities industry. The committee may have up to 12 members. Members are appointed by the Minister of Competition, Science and Technology. Committee members serve for terms of up to three years and may be reappointed for an additional term, but the service must not exceed a total of six years.

Charlotte P. Bell
Catalyst Corporate Finance Lawyers

Brooke S. Campbell
Odlum Brown Limited

Susan Copland**
TSX Venture Exchange Inc.

Philip J. Dowad
KPMG

John T. Eymann
Pacific International Securities

Paul L. Goodman*
Goodmans

James L. Heppell
Catalyst Corporate Finance Lawyers

Brenda A. Irwin
Business Development Bank of Canada

R. Michael Jones*
Platinum Group Metals Ltd.

Jill D. Leversage, Committee Chair
TD Securities Inc.

Stewart L. Lockwood
Vector Corporate Finance Lawyers

Valerie J. MacLean
Better Business Bureau of Mainland BC

S.R. (Bob) Munroe*
Assante Financial Management Ltd.

Victor J. O'Connor
McCullough O'Connor Irwin

Cecilia Wong
Leith Wheeler Investment Counsel Ltd.

* *Retired on March 31, 2003*
** *Appointments effective April 1, 2003*

Technical Forum of the Institute of Chartered Accountants of BC A body of the Institute of Chartered Accountants of BC, the Forum offers an opportunity for practicing members serving publicly traded companies to discuss with representatives of the responsible regulators, concerns affecting members providing such services. It also provides a venue for the regulators to discuss future policy directions and their possible impact on public companies and their auditors.

Len Boggio, CA
PricewaterhouseCoopers LLP

Matt Bootle, CA
TSX Venture Exchange

James Carr-Hilton, CA
Dale, Matheson, Carr-Hilton

William Davidson, CA
Davidson & Company

Don de Jersey, CA
BDO Dunwoody LLP

Peter de Visser, CA
De Visser Gray

Rick A.S. Henshaw, CA
Smythe Ratcliffe

David Kong, CA
Ellis Foster

Stella Leung, CA
Institute of Chartered Accountants of BC

Kelvin Lum, CA
Deloitte & Touche LLP

Larry Okada, CA
Staley, Okada & Partners

Dale Peniuk, CA
KPMG LLP

Nicole Poirier, CA
Ernst & Young LLP

Jacqueline Tucker, FCA
J.M. Tucker Inc.

Doug Wallis, CA
Institute of Chartered Accountants of BC

Mark Zastre, CA
Grant Thornton LLP

CSA Mining Technical Advisory and Monitoring Committee This committee is made up of mining industry technical representatives who provide advice to the regulators in the fair and reasonable implementation of National Instrument 43-101 *Standards of Disclosure for Mineral Projects*. They advise the CSA on industry and professional developments related to securities regulatory issues and how to best communicate guidance on technical disclosure to the minerals industry. There are nine committee members and two observers from the stock exchange.

George R. Cavey
OreQuest Consultants Ltd.

Marie-Josee Girard
Sirios Resources Inc.

Kenneth A. Grace
MICON International Ltd.

Keith McCandlish
Associated Mining Consultants Ltd.

Chester M. Moore
Noranda Inc./Falconbridge Ltd.

John M. Morganti
Teck Corporation

Philip E. Olson
Claude Resources Inc.

John T. Postle
Roscoe Postle Associates Inc.

Kenneth R. Shannon
Corriente Resources Inc.

glossary

CSA Canadian Securities Administrators: an association of the securities administrators of each Canadian province and territory.

Disclosure The information public companies are legally required to report in their filings and all other dissemination.

IDA Investment Dealers Association of Canada: the main securities industry trade association and self-regulatory organization.

Insider An officer or director of a public company, or a shareholder who owns more than 10%.

Insider Disclosure The legally required public disclosure by insiders of their securities holdings and transactions.

Instrument A rule or regulation that is enforceable by law

Issuer A company or other entity that has issued or is proposing to issue securities.

MD&A Management Discussion and Analysis: the section of a quarterly or annual financial report in which the issuer's management explains its financial results.

MFDA Mutual Fund Dealers Association of Canada: the self-regulatory organization for firms that specialize in distributing mutual funds.

NEAT New Economy and Adoption of Technologies group: a group of BCSC staff and industry advisors organized to discuss the impact of securities regulation on technology companies.

NRD National Registration Database: an electronic filing system for registration applications and information.

Registrant A firm or individual that is registered under the *Securities Act* to trade or advise in securities.

Reporting Issuer A company that has offered securities to the public or listed its shares on an exchange. These issuers, often called "public companies," are subject to the Continuous Disclosure requirements of securities laws.

RS Market Regulation Services Inc.: the self-regulatory organization that oversees trading on exchanges and other markets.

SEDAR System for Electronic Document Analysis and Retrieval: the national electronic filing system for disclosure by public companies and mutual funds.

SEDI System for Electronic Disclosure by Insiders: an electronic system for filing insider reports.

SRO Self-regulatory organization

TSE Toronto Stock Exchange

TSX Venture Exchange The national junior equity exchange, now a subsidiary of the TSX Group.

TSX Group A public company that owns the Toronto Stock Exchange, the TSX Venture Exchange and TSX Markets.

STAFF ACKNOWLEDGEMENT

We would like to recognize our staff for their contributions to the following community projects:

The Provincial Employees Community Services Fund

BC Children's Hospital

The Food Bank

Plan International (Foster Parent Program)

The Vancouver Sun Run

Junior Achievement of BC

CONTACT INFORMATION

For information about the BCSC, brochures on important topics or for information on securities regulation in BC, visit or contact us at:

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E-mail: inquiries@bcsc.bc.ca
Web: www.bcsc.bc.ca

Search our website databases to:

- check an adviser's credentials
- track insider trading reports
- view exempt distribution information
- see BCSC rules, policies and decisions

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